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## EXPRESSIONS OF OPINION IN REGARD TO THE FIRST EDITION OF "THE INTRODUCTION TO POLITICAL ECONOMY."

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"I am glad that the old 'Introduction' is not going out of print, as I never saw a work that would secure the interested attention of the average person in the subject of political economy as surely as that."—*The late Amos G. Warner, Ph.D., Professor of Economics and Social Science in the Leland Stanford, Jr., University.*

"We are using with great satisfaction your *Introduction to Political Economy*."—*Charles J. Bullock, Teacher of Political Economy in Hitchcock Free High School, Brimfield, Mass. (now in Williams College).*

"It gives me pleasure to state that I like the book better on the whole than any I have used in my twenty years of experience as a teacher of political economy. I like it better because it recognizes vital questions of the day and does not ignore the dynamics of the science. . . . I can testify that no other branch of study ever awakens such a general and thorough interest among girls."—*Miss Jane M. Slocum, Vice President of the Granger Place School (for young ladies), Canandaigua, N. Y. (now of the Idaho Industrial Institute).*

"Your work is by far the best introduction to economic science which I have read. I am particularly pleased with the emphasis of the sociological and ethical aspects of the subject. Of course, a science may be built upon abstractions, provided we remember that they are abstractions. Our traditional political economy has been built upon abstractions, but, unfortunately, has forgotten that they are abstractions. In this way a purely fictitious economic man, driven purely by selfishness, has been invented, and we have been summoned to pattern our lives after him. To decline to do so was to fly in the face of science."—*Professor Borden P. Bowne, of Boston University.*

"Our students are much interested in your book on political economy, which, I find, is making a marked impression. Go on with the good work. I am glad that the constructive era in this field has begun."—*Professor Edmund J. James, of the Wharton School of Political Science, University of Pennsylvania (now of the University of Chicago).*

"It is, I think, the best elementary economic treatise that I have read. How clear and simple it is!"—*Émile de Laveleye, Professor of Political Economy, University of Liège, Belgium.*

"In my judgment the book is a pronounced success, and I even think it will mark an era in text-book making. The sociological standpoint and the historical method, also generally the human spirit in it, sharply distinguish it from text-books now in the hands of elementary students."—*J. B. Clark, Professor of History and Political Science in Smith College, Northampton, Mass. (now of Columbia University).*

"It shows, as no other book ever has shown, what the scope of economic study is. The entire field is mapped out, and the survey is from the right standpoint, the sociological."—*F. H. Giddings, Professor of Political Economy, Bryn Mawr College (now of Columbia University).*

"We are using Ely's *Political Economy*, and find that it is doing just what the author intended it should do, namely, awaken the mind to a full comprehension of the subject and stimulate it to further inquiry. It does more. It puts the subject in a new and attractive light. I regard it as a great success."—*F. W. Blackmar, Professor of Political Science, University of Kansas, Lawrence, Kan.*

"I have looked through it, and I wish to say that no other text-book on the subject pleases me quite so well. It is sufficient to prove that this subject need not be a dry one, as is so often claimed."—*George P. Garrison, Professor of History and Political Science, University of Texas, Austin, Tex.*

"It contains admirable features, and I shall recommend it to our students."—*Edward G. Bourne, Professor of Political Science, Adelbert College, Cleveland, O. (now of Yale University).*

"I have used in college classes and have watched the use by one of my associates of Professor Ely's *Introduction to Political Economy*. The work not only enables, but almost compels, the instructor using it to fulfill the author's design of revealing to the students the genuineness and timeliness of the questions which political economy confronts, and it points out the only scientific method of investigating those problems. I can do better work with this volume than with any other which has yet appeared."—*Albion W. Small, President of Colby University (now of the University of Chicago).*

# AN INTRODUCTION

TO

# POLITICAL ECONOMY

BY

RICHARD T. ELY, Ph.D., LL.D.

PROFESSOR OF POLITICAL ECONOMY AND DIRECTOR OF THE SCHOOL OF ECONOMICS  
AND POLITICAL SCIENCE IN THE UNIVERSITY OF WISCONSIN

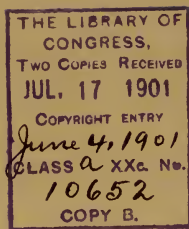
NEW AND REVISED EDITION

*Thirty-first Thousand*

NEW YORK: EATON & MAINS  
CINCINNATI: JENNINGS & PYE

1901

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## PREFACE

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IN offering to the reader this revision of the *Introduction to Political Economy*, it seems advisable to explain some of the circumstances which have called it forth, and which have consequently determined its character. In particular is it important to explain its relation to the author's *Outlines of Economics*, in order to avoid confusion and possible inconvenience.

The "Introduction" was first published in 1889, and has since then without change passed through many editions. The "Outlines," which appeared in 1893, was originally intended to be simply a revised edition of the "Introduction," but finally grew into something quite different. It was therefore decided not to withdraw the earlier work, and in the preface to the "Outlines" it was stated that "in any future revisions of the two books an effort will be made to develop still further the peculiarities of each; the aim of the 'Introduction' being to furnish chiefly historical and descriptive material; the aim of the 'Outlines' being to give a systematic sketch of theory." Since the appearance of the "Outlines" the author has been gratified to learn from many sources that his course at that time has met with approval; and in this revision he seeks to carry out the intention to which reference has just been made. It has not been attempted, however, to make the revision in any way a new book, but rather to keep it essentially the same book while developing it in the direction indicated. The chief purpose of the revision has been to remove obvious defects, to bring statistical statements down to date, and to change theoretical expositions, so far as the advance of economic thought clearly requires that this should be done. On the other hand, it is altogether foreign to the purpose of this work to enter into theoretical controversies.

Another consideration should be mentioned in this con-

nection. The book has been used by various organizations. Eight years ago the Bishops of the Methodist Episcopal Church adopted it as a part of the preachers' reading course, which they had laid out for candidates for the ministry in their Church. They have this year asked that the book be revised, but with the understanding that after revision it must be essentially the same book. The author has felt the responsibility thus imposed upon him as keenly as he has realized the compliment paid him by this distinguished body.

The spirit and purpose of this book are then sufficiently apparent. It aims to present what the intelligent citizen ought to know in regard to political economy, and to do so with scientific accuracy. On the other hand, it does not aim to be a contribution to the knowledge of the specialist, and there has been no attempt to give exhaustive classifications and sub-classifications. Moreover, the present book aims to help those who wish practical guidance in the solution of the puzzling economic questions which come to them in the various relations of life, and, therefore, gives special attention to the ethical side of political economy. After all, what the so-called "plain man" wishes chiefly to know is what is right and wrong in those problems which confront him as he seeks to gain his daily bread.

It has seemed to the author that one difficulty with many economic treatises is that they have no one clear aim, that they are, so to speak, "straddles." This difficulty he is seeking to avoid, and consequently he has had only one class in mind in this revision. It is first of all the general reader for whom the book is designed, and it is the general reader whose needs have been kept constantly in view. For him it primarily exists, and to his requirements have been entirely subordinated all considerations based on its possible use as a text-book.

It only remains to make acknowledgment of the very efficient assistance which the author has received in this revision from his friend, Dr. George Ray Wicker, of Dartmouth College.

RICHARD T. ELY.

Madison, Wis., March, 1901.

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## PART I

THE GROWTH AND CHARACTERISTICS OF INDUSTRIAL SOCIETY, AND THE NATURE OF POLITICAL ECONOMY





## CHAPTER I

### PRELIMINARY REMARKS ON POLITICAL ECONOMY AS A SOCIAL SCIENCE

SOME writers have been inclined to discard formal definitions of sciences as unprofitable. True, an entire scientific treatise is nothing but an expanded definition. A text-book of physiology, for instance, is nothing but an answer to the question, What is physiology? The present work is a similar endeavor to answer the question, What is political economy? But while conscious of the imperfections of definitions, particularly when placed at the beginning of a treatise, the author believes that the student will find it an advantage to have described to him in advance, in rough outlines at least, the field which he is about to investigate more minutely. At the outset of our studies, therefore, we shall attempt to frame some kind of an idea of political economy, and of that group of sciences of which it is one, returning later to a more detailed description of the nature of our particular science.

#### **The Place of Political Economy among the Social Sciences.**

—Political economy is a social science, but it does not exhaust the whole field of the social sciences. On the contrary, several others find a place in that field, among them, political science and sociology.

The domain of political science is rather clearly defined and generally acknowledged as that part of social life which manifests itself in state organization. When states, in the course of evolution, come into being, those within the jurisdiction of the states have a special relation one to another. The study of this relation, of its nature, its origin, its purpose, its power, and its scope, constitutes the task of the political scientist.

The field of work of sociology is neither so well defined nor so generally acknowledged. Three, possibly four, fairly dis-

inct notions regarding the province of the science prevail. The older idea, that sociology is the science of all the infinitely numerous and infinitely complicated phenomena of human association, is still accepted in many quarters as exact and sufficient. Among others who discuss sociology with this conception in their thought are Comte, Herbert Spencer, and Lester F. Ward.\*

In more recent days this view of the subject has been vigorously opposed, chiefly on the ground that such a science as would be contemplated under the above concept would be impossible because of its very vastness and complexity, and because the domain as thus roundly outlined has been occupied already, in many of its parts, by other fruitful and legitimate sciences. It has been contended that political science has a sharply defined field, and that in that field it should be left to itself, offering nothing but results to other sciences which may need such data. Political economy, it has been urged, has also a distinct field of operation, and its territory should not be seized upon by another science, the very magnitude of which would necessarily condemn it to barrenness.

These opponents have therefore sought to find for the science a field which should be less ambitious and more fertile. Thus, Professor Franklin H. Giddings, in his *Principles of Sociology*, maintains that "while sociology in the broadest sense of the word is coextensive with the entire field of the special social sciences, in a narrow sense, and for purposes of university study and of general exposition, it may be defined as the science of social elements and first principles." These social elements and first principles are simply the common basis—the postulates—of the special social sciences. "Not con-

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\* Professor Ward would, it is true, have the sociologist refrain from entering any one of the minor fields, like economics, which is being cultivated by a special class of investigators. In his own words: "While economics belongs within the great field of sociology, there should be no confusion or overlapping in speaking of these sciences or in teaching them, so that nothing that clearly belongs to economics should be treated as sociology."—See Ward's *Outlines of Sociology*, page 15.

cerned," he says, "with every aspect and grouping of social phenomena, fundamental sociology is intermediate between the organic sciences on the one hand, and the political and historical sciences on the other hand." In another place he illustrates his view by the position of biology among the natural sciences. At one time the word biology was commonly used as a general term to cover all the field of the sciences which deal with organic life, and a survival of this view is still indicated in the catalogues of some colleges. But to-day the word is more commonly used in a narrower sense to connote the universal and essential phenomena of life—cellular structure, nutrition and waste, growth and reproduction, adaptation and environment, and natural selection—phenomena which are common to all plant and animal life, and the science of which is therefore basal and general. Sociology, in the view of Professor Giddings, stands to the social sciences in precisely the same position as does biology to the organic sciences.

By another group of sociologists, prominent among whom is Professor Albion W. Small, of the University of Chicago, the subject is conceived in a manner somewhat similar to that of Spencer and Ward. The difference seems to be that while the latter make sociology all inclusive, the former claim only that it is a science constructed from the data gleaned from the special social sciences, these data being grouped to give a comprehensive science of social life in all its aspects. As will be noticed, this position is antithetical to that of Professor Giddings. The science, according to the one view, gets its data from the special social sciences, while according to the other view, that of Professor Giddings, it supplies their data to them.

Still another view of the subject is that it occupies a place neither more general nor more special than that of the other social sciences, but is coördinate with them. Just as human want is the nucleus of economic thought, and as organized social activity under an ultimate and powerful sanction forms the center about which gathers the material of political science, so, according to this last view of the science, the "social

imperative" furnishes a distinct kernel for a separate science to be known as sociology. The social imperative is the impelling power which drives men into those forms of association that exist within the association called the state, but which are essentially independent of it. It is the principle which brings men together and regulates their action in such associations as the church, the party, and even in the less rigid association of their everyday intercourse with one another.

To sum up these various views of the province of sociology by means of a familiar analogy, we may say that one regards the science as in reality nothing but the perfected family of the social sciences; that another makes sociology the mother of the family, which includes among its children economics and politics; that a third represents the subject as the whole family, not indeed in the sum of the individual activities of its members, but only in their combined or concerted activity; and that, according to a fourth view, the science is a sister in the family of social sciences—a sister of economics and politics. Were we to press the matter still further, we would find in this last case that there are differences of opinion as to the rank of the sister in the family, some claiming for her the chief honors and dignity, while others would reduce her to the position of a neglected Cinderella, who must content herself as best she may with whatever her more ambitious and honored sisters do not deign to use. Even beyond all these we have yet another view, maintained by the regular occupant of a chair in sociology in an American university, that the science does not and cannot exist at all except as an abstraction. He holds that in the large use of the term sociology, it is nothing more than what has long been studied under the name of philosophy of history, and that, on the other hand, there is no minor or special field already unoccupied in which a new science of sociology can be established. No longer allowed membership in the family, she becomes but a wraith and a name.

What view of the science will ultimately prevail it is need-

less for us to inquire. Enough has been said to illustrate the position of political economy in the general field of the social sciences, and that is all that concerns us in this place.

**Society is Organic.**—The fact of the necessary relationship of human beings to one another is brought out in a thousand ways in the language of everyday conversation. Indeed, even when we say “human beings” we separate men from other beings, and imply a common tie in humanity. This idea is brought out still more clearly when we speak of others as our fellows. Without dwelling upon words which imply this intuitive feeling in various grades of intensity, we may simply remark that Christianity offers us our highest conception of a society which embraces all men, and in that conception sets us a goal toward which we must ever move. The fatherhood of God and the brotherhood of man are the expressions of this relationship. Human progress can never pass that goal, for it satisfies the highest aspirations of which we are capable.

As a first step in the study of sociology, as well as in the study of political economy, it must be clearly understood that society is organic; that is to say, it is like an organism in that it is composed of interdependent parts performing functions essential to the life of the whole. Society expresses a will in various ways, particularly, but not solely, through government, and it finds methods for the execution of its purposes. Society punishes those who offend it and violate its well-known desires, the punishment assuming almost infinitely varying degrees of severity, including even torture, disgrace, and death. Many writers, past and present, have held not only that society is organic, but that it is really an organism. Without entering into details, we may simply say that this view is sharply combated to-day by many careful and eminent writers, on the ground that society differs in so many particulars from those organisms to which the name was earlier applied that to make the term cover society clouds, rather than clarifies, thought. In any case, it is in great measure a matter of definition. Whether we use the word organism in defining society or refuse that name to it, we must bear in



mind at least one important difference. Human society consists of parts which are themselves organisms, and each of which has a destiny and a purpose of its own. Society is composed of individuals, but individuals find their true life in society.

**The Departments of Social Life.**—The life of society, or of a people organized as a politically independent society, may be conveniently divided into eight parts, which we may denominate departments of social life or life-spheres. They are language, art, science and education, the family life, social life in the narrower sense—that is, the intercourse of friends and associates—religious life, political life, economic life. The expression economic life means, briefly, that part of man's life which is concerned with what is commonly called "getting a living." Now it is with this eighth great fundamental life territory of a people that political economy has to do, and we must examine its character.

**Relation of the Economic to Other Life-Spheres.**—But the reader must first be warned that the scope of our science is neither small nor insignificant because we have excluded so much, and more especially because we have excluded the higher life-spheres of society. Our department touches all others, modifies and conditions all others, and ought to subserve all others; and in studying it we are examining those things which are fundamental, those things which serve as an indispensable basis for the highest flights of the soul in art, music, and religion. There is scarcely a phenomenon of society—perhaps none at all—which does not come sooner or later within the range of the economist's discussion, although he arrives at all from his own peculiar starting-point.

**Political Economy the Best Introduction to Sociology.**—As has already been pointed out, the nature and scope of sociology are a matter of controversy among the sociologists themselves. The unsettled condition of ideas regarding that science is to-day preventing united work and rapid progress. As one great expositor of the subject says: "The science, in one sense, does not yet exist. It is rather to-day a science in the mak-

ing." Political economy, on the other hand, is a science which is making rapid progress at the present time, and men in all civilized lands, particularly in Italy, Germany, Austria, England, and the United States, are devoting themselves to its advancement with an ardor which is justified by the results already achieved. While it is recognized that political economy has not long left behind the period of infancy, and that a great deal of what passes under that name is crude and imperfect, it is safe to say that it is to-day in a most hopeful condition, and that at the present time political economy serves as the best introduction to the study of the various special social sciences, as well as to a study of the vast problem of coördinating the phenomena of society in all its various and varying aspects.

---

**Literature.**—Herbert Spencer, *The Study of Sociology*, *Principles of Sociology*, and *Social Statics*; Auguste Comte, *System of Positive Philosophy*, translated by Martineau; Lester F. Ward, *Dynamic Sociology*, *The Psychic Factors of Civilization*, and *Outlines of Sociology*; Albion W. Small and George E. Vincent, *An Introduction to the Study of Society*; Franklin H. Giddings, *The Principles of Sociology*; Benjamin Kidd, *Social Evolution*; Arthur Fairbanks, *Introduction to Sociology*.

## CHAPTER II

## THE ECONOMIC LIFE OF MAN

**Isolated and Social Economic Life.**—A few elementary facts will serve to explain what is meant by the term economic life. The wants of man are almost infinite in number and diversity. Many of them are such as must be satisfied in order that he may live at all; many others are such that they must be satisfied if he would live worthily; while still others are of such a nature that their gratification ministers to vanity or to other evil traits of character. Some can be satisfied by material things, others only by immaterial goods or services. Wanting these things, man seeks to acquire them. The struggle is a constant and necessary one, and it is this struggle to acquire the means of satisfying his wants, in so far as they are usually measured in terms of money, that we call economic activity. That part of man's life which is devoted to the struggle we call his economic life.

This struggle may be carried on in isolation or in society. We know, however, that in civilized communities, the economic life of man, however selfish and nonsocial may be its aim, must in its means be very largely social. Even that man who seems to be most isolated in his economic life will be found on investigation to touch the economic life of others at a thousand points. Indeed, it is only in the earliest stages of human development that man can be said to lead an isolated economic life. Even then it is perhaps never strictly isolated, for neither in history nor in the accounts of modern travelers and explorers do we find human beings living wholly in and for themselves. The savages of Terra del Fuego come near to answering to such a description. Moreover, knowledge of the lower animals would lead us to the opinion that perfect isola-



tion of economic life never exists among men. Even the beasts of the field are not altogether isolated from one another in their efforts to obtain food or in their consumption of it.

In the *Odyssey* of Homer, that poet paints the isolated life of barbarians in a passage which describes the Cyclops. We quote from the excellent translation of Mr. Bryant:

"No laws have they; they hold  
No councils. On the mountain heights they dwell  
In vaulted caves, where each one rules his wives  
And children as he pleases; none give heed  
To what the others do." \*

It has been said that the wild men of Australia never co-operate with one another in their economic efforts, and the individualism of the blacks of "the heart of Africa" has been described by Professor Drummond, in his work, *Tropical Africa*, to be such that in some districts three natives cannot be sent with a message, for in that case two of them would combine and sell the third before they return. Sir John Lubbock uses these words of savages in general: "The savage is always suspicious, always in danger, always on the watch. He can depend on no one, and no one can depend on him. He expects nothing from his neighbor, and does unto others as he thinks they would do unto him. Thus his life is one prolonged scene of selfishness and fear." †

But while we nowhere find instances of individuals living in perfect isolation, we do find such isolation among very primitive peoples in the case of families or households. Economic activity begins and ends with the family. Products are taken from the hand of nature and are used directly or in only slightly changed form to satisfy the wants of the members of the economic unit. Probably even here, while isolation is the rule, families occasionally exchanged with one another and thus unconsciously laid the foundations of a social economic life. Yet the progress was so slow that after all the centuries relative isolation still marks the economic life of man over large parts of the earth's surface.

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\* *The Odyssey*, Bk. ix, 136-140, Bryant's translation.

† *Prehistoric Times*, chapter xvi.

The modern phases of civilization have been rapid in their changes. The progress of civilization itself has been not inaptly compared to the increase in mass of the rolling snow-ball. At first gathering volume very slowly, the rolling sphere later takes on new accretions the more rapidly because of the ever-widening superficial area of the mass. In the same way man, gaining only in the course of long centuries the very slightest control over nature, develops his powers until previous acquisitions enable the race to invent and incorporate new expedients with ever-increasing ease because of the knowledge and power already gained. By a parallel thread of considerations we may, perhaps, understand better why advance in the material elements of civilization has been slower in gathering headway, but more rapid when the impetus has once been fairly gained, than has been the case with the progress of the mind of man in the fields of literature and art.

**Economic Life Increasingly Social.**—The economic life of civilized man is in a very great degree social, and is becoming increasingly social in ever-widening economic areas with the progress of civilization. The greater part of what is produced in our industrial centers is not for the consumption of the producers themselves, but for others; while the wants of these producers are satisfied by what others elsewhere in the industrial field are producing for exchange with them. Go to Gloversville, New York, and you will find thousands engaged in the production of gloves which they themselves use at most in very few cases. Go to Westfield, Massachusetts, and you will find men busy in making horsewhips, very few of which the makers will ever have occasion to use. Further east in Haverhill, in Lynn, in Spencer, Natick, Marlborough, Brockton, and Worcester, you will find other thousands, men and women, young and old, passing the greater part of their lives in the production of shoes which you and I and millions of others in America and Europe are later to wear; and, more than that, you will find each place a center for the production of some one kind of foot-wear. Yet you would doubtless find on inquiry that very many of

these working men and women and children, and many of the capitalists with whom they are joined in the great work of production, have not worn a shoe to the making of which they have themselves directly contributed. Even in agriculture the same state of things may be found, though in a far less marked degree. The cotton planters of the South and the laborers upon the plantations obtain a great part of their living from the results of labor expended upon a product which enters but little into the satisfaction of their manifold wants. Many a landowner along the shore of Lake Erie, in Chautauqua County, New York, devotes his land almost exclusively to the production of grapes, yet himself consumes directly but an infinitesimal part of the output. Indeed, one need not move from his own neighborhood to see the same point illustrated, perhaps on a smaller scale. Does not the reader see all about him factories, large or small, in which human labor is expended upon goods that are not destined for the use of the producing laborer?

It may seem that this point has been dwelt upon at too great length, but the author is led to such insistence upon it for two reasons. In the first place it is one of the most essential phenomena of economic life, and one's whole conception of economics, public and private, of the importance of ethical considerations, of the proper attitude of the state, will be influenced or even determined by the manner in which this concept finds place in his mind. The second reason is closely involved with the first. There is no commoner mistake in economic thought or reasoning than the omission of this fundamental fact of social interdependence from the picture which a man tries to form for himself of the conditions involving concrete economic problems.

As has been said above, this social interaction is increasing in ever-widening circles. In a very real sense we may say that nations to-day form economic unities. Just as legal and ethical conceptions have kept on broadening as they deepened until to-day the one and the other are beginning to be felt even in international relations, so economic interdependence

with all that it implies, has passed the barriers of national exclusiveness and is coming to be felt throughout the wide world. Events of the last decade have marvelously hastened the already rapid movement.

But we cannot yet be said to have reached a period of a *world economy*. *National economy* and *economic nationalism* are actual; economic internationalism, or the growing body of relations among nations, is rapidly extending and expanding toward the goal of world economy.

**Economic Life Defined.**—We have already used tentative definitions of the term economic life, but we are now prepared for a more complete one. Summing up what has been said, we may define the economic life of a people as its regular systematic activity for the acquisition and employment of goods—commodities and services—for the satisfaction of its wants. With a similar meaning we may speak of the economic life of any person—natural or artificial—as, for instance, of a farmer, or a railway corporation, or a city. We sometimes use simply the word *economy* for the larger expression economic life, as when we speak of the economy of a family, a city, or a nation.

This economic life of a people embraces the economic activities of all its individual members and of all its political units, when engaged in the acquisition and employment of economic goods, not merely for the satisfaction of the wants of individuals as such, but also for the satisfaction of the wants of all its institutions, educational, religious, and governmental.

**Political Economy not Restricted to Material Considerations.**—We must repeat that the economist, as such, is not concerned merely with the material life of men, for there is not a phase of social life which does not fall within his province. But other than the material phases of life must in most cases be considered indirectly rather than directly. The economist and the physician, for example, both study and discuss the sanitary conditions of cities, and both propose measures to lessen the awful mortality among the children of the city



poor, but they come to the consideration of this same topic by very different routes. The physician considers directly the health of the people, while the economist, finding one of the factors of production in an unsatisfactory or diseased condition, is led to a study of the causes and remedies.

**The Economic Life not for Self.**—Certain results which flow from the considerations that have been offered in the preceding paragraphs must now be commented upon more particularly. In the first place, as we have tried to explain with some fullness, it is characteristic of the economic life of man that it is spent directly not for self, but for others. Goods are produced not for use, but for exchange. It follows as a direct consequence of this that the division of society into economic classes, with a widely extended division of labor, is one of the fundamental facts of modern economic life. One class produces one thing, another class a second thing, and so on indefinitely, and as the variety of commodities is great the number of economic or industrial classes is correspondingly large.

**Dependence of Man upon Man.**—The dependence of man upon his fellows is another fundamental fact. When we speak of the increase in the number and importance of commercial and industrial relations, we simply give expression to a movement which all can observe. But relationship in itself means dependence. There cannot be a relation of one; it must be a connection between two or more. *This economic dependence of man upon man increases with the progress of industrial civilization.* In this single phrase lies locked up the explanation of many of the complicated and distressing phenomena of our times.

Let us take, as an illustration of this dependence of the modern man, the manufacture of watches, and let us regard first the case of an artisan who makes the entire watch. If the husbandman is shiftless or unskillful, he will have no surplus grain to exchange for a watch. If the miner stop his work, the silver, gold, and other metals which enter into the watch will not be supplied. If the spinner and weaver cease

their operations, the watchmaker will suffer for clothing. If the shoemaker become indolent, the watchmaker will be forced to go without covering for his feet.

Let us now take another step. Suppose that the artisan manufactures, not a whole watch, as was common formerly, but only a small part of one, as is the rule at present—let us say the three hundredth part of a watch. How greatly is his dependence upon others increased! He is now dependent upon hundreds of others engaged in the production of watches, as well as upon other industrial classes. It is not improbable that he may be dependent upon a million of his fellows for the necessities of life, so wonderful is the economic society in which and through which we live.

Every day brings fresh illustrations of the growing economic dependence of man upon his fellows, showing that production is becoming more and more social in its nature, and less and less individual. Railway strikes offer a good illustration of the interdependence of men in industrial society. The entire economic life of the nation, and the life even of other nations, is affected in such cases by the acts of comparatively few. A recognition of this economic dependence of man upon man has even led to important consequences in legislation and in judicial decisions, limiting the industrial liberty of those engaged in particularly important occupations. It is plainly admitted that in special cases a man's work concerns not merely himself, but the general public, and the difference between one sort of work and another is not so much of the kind as of the degree of social necessity. A great strike, like that of the Reading coal miners in 1888, or the Chicago strike of 1894, is always found to affect millions of people in many different and often unexpected ways.

The old household economy was, relatively speaking, independent. What the household produced it enjoyed, and it might live in the midst of plenty while its neighbors were suffering from all kinds of economic calamities. There was, of course, some slight kind of mutual dependence within any

small neighborhood, but this rapidly grew less with increase of distance, and often almost disappeared at a distance of a hundred miles. Charles Egbert Craddock's book, *The Prophet of the Great Smoky Mountains*, describes well a rude kind of isolated economic independence. The people of this region, exchanging goods for goods and using no money, are troubled by no questions of the currency. Speaking of the settlement in the Big Smoky, Craddock says: "It was hard to say what might be bought at the store except powder and coffee, and sugar perhaps, if 'long sweetenin' might not suffice; for each of the half-dozen small farms was a type of the region, producing within its own confines all its necessities. Hand-looms could be glimpsed through open doors, and as yet the dry goods trade is unknown to the homespun-clad denizens of the settlement. Beeswax, feathers, honey, dried fruit, are bartered here, and a night's rest has never been lost for the perplexities of the currency question on the Big Smoky Mountains." Silver legislation and greenback decisions were alike indifferent to them. Yet how wretched this independence! How illusory! For the chief and most trying dependence of man is brought about by physical laws, and associated effort to rule nature may and does increase the real freedom of men, while it renders man more dependent than formerly upon his fellows. At the same time law and custom attempt so to regulate and control this dependence of man upon man as to mitigate its severities. When the dependence of one person upon another takes the form of mutual obligation between equals in strength, it is often not felt as a hardship at all. If we may conclude aught regarding the teleological purpose of the forces working for man's development, we must believe that it was intended by the Governor of the universe that man should seek union with his fellows. This union is man's salvation.

**Political Independence the Basis of a National Economy.**—A nation whose economic activity and institutions we designate by the term economic life or national economy must always be a politically independent people, a number of men

who are joined together organically in an independent political unity, and who form in this unity an independent state. A state is a union of a stationary people, occupying a defined territory, and existing under a supreme power and a definite constitution. It is, on its psychical side, a continuous consciousness, is organic, and possessed of a moral personality which has its foundations laid in the nature of man and its purpose in the welfare of its people.\* It should be said in passing that the American Union constitutes the real state, while the separate commonwealths, having only a limited power, are but parts of the great framework of the real state.

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\* In Mulford's work, *The Nation*, the reader will find a clear analysis of the concept.



## CHAPTER III

## THE TWO GREAT FACTORS IN A NATIONAL ECONOMY

THE economic life of a nation is the product of two great factors, land and man—the physical and the psychical or human. We shall proceed to consider these at some length in the order just given.

**1. The Land.**—When we examine the influence of the land, or the physical elements of the environment, on economic life, we find that this influence is not a single one, but is made up of many elements which have varied widely in their importance from age to age. The more important of these elements must be given separate consideration.

**Surface.**—First of all is the matter of surface. It has mattered much in early days of the world's history whether the surface of a country which a people inhabited was level or hilly or mountainous, and the result has been a momentous one in molding the destinies of nations, both directly and through its influence upon the physical and mental qualities of the people. To the mountain barriers which divide little Greece into still smaller parts was due in great measure the isolation of the various peoples of the land, with all the influence that such isolation had upon the art and literature and national life of that classic country. To their mountains, all agree, the Swiss and the Scotch owe many of the traits of mind and body which distinguish them from other peoples. These are only more striking illustrations of what, we may well believe, happens everywhere on the face of the globe. If the rolling, treeless prairies of our own Western country are not to leave a characteristic impress upon those who live there, it will only be because in modern times such influences are constantly diffused by the movements of our population from place to place.

**Soil.**—We should in the second place take note of the soil itself, and of what is below the surface of the earth. The importance of these considerations becomes manifest when we reflect on the character of the national economies of various countries, as, for example, of the United States, Germany, and Switzerland. American prairies explain, at least in part, the invention of the steam-plow; the treasures below the earth's surface determine the peculiar economic life of eastern and, indeed, of western Pennsylvania; while the sunny hillsides of Germany account for the vineyards along the Rhine, and the mountains of Switzerland give a clue to the common property in pastures, to the fine cheeses, and to numerous small industries, as well as to the sturdy independence and democratic institutions of the Swiss people.

**The Water Privileges** and their special character must in the third place claim our attention, for they are of peculiar importance in shaping the economy of a nation. A long coast line with good harbors favors international commerce, and great inland streams like the Mississippi and Missouri, and magnificent lakes like Michigan, Superior, Erie, and Ontario, encourage growth of domestic trade. Fine falls of water promote manufactures, as we may see in the valleys of the Merrimac and Connecticut rivers, in Augusta, Georgia, favorably situated on the Savannah, and in several of the river valleys in Wisconsin. The scarcity of water in the "far West," and the wrong policy which has allowed private individuals to gain control over such streams as do exist, go far to illustrate how land-monopoly in certain regions of our country was established and is still supported. Present conditions in certain large sections of the West, where fertility is dependent upon artificial irrigation, threaten even greater trouble for the future.

**The Atmosphere** is a fourth feature of the physical attributes that go to make up what we include under the general name of land. Differences in atmosphere explain peculiarities of economic life. The favorable climate on the shores of Lake Erie is an indispensable condition of the fine fruit

grown in the western part of New York State. It is the atmosphere of southern California and of Colorado which has determined in great measure the population of those states.

**Size** is another element of importance. The great size of a country like the United States, admitting of a rare degree of national economic independence and of most diversified pursuits, is an immense advantage to the American people, and has exercised a profound influence upon our national economy.

The element of mere size has in the last few years taken on a new and growing importance which seems fraught with mighty consequences for the political relations of the world. The great struggle of nations for expanding territory, this struggle which has marked in blood the last years of the century, carries us back in thought to earlier days when the expanding population of the Goths and Vandals overran Southern Europe, and still further back to primitive times when the pressure of population against a precarious means of existence created constant warfare of tribe with tribe.

**Neighboring Nations.**—Finally, the position of a country with respect to neighbors must affect materially its entire life. Germany, situated in a great plain on the continent of Europe, surrounded by hostile nations, is an illustration of the vast importance of this element. The bare statement of the facts relating to the situation of Germany shows that the Germans must, as things are, be a warlike nation. And connected with this is the fact, made clearer by recent events, that increasing interrelations of nations, even when situated at a distance one from another, has the effect of making them “nearer neighbors” both for ill and good.

**2. Man.**—The second great factor of the two which produce a national economy is the human factor, man; and we must treat this also under two sub-heads.

**Economic Activity of Individuals.**—The economic activity of the individuals of a nation will first receive our atten-

tion. The national economy is not a mere sum of all private economies in the nation, nor of all private economies plus all public and quasi-public economies. It may perhaps be better compared to a chemical compound which is something different from the elements composing it, and is yet determined in its character by these elements. Water is not merely oxygen plus hydrogen. It is a new thing. We must, then, pass from a consideration of the physical situation and environment to the economic traits of the human beings who make up the nation. Their activity, their perseverance, their integrity, and their skill must all be examined if we would understand the national economy.

**Legislation and Administration.**—The second sub-head comprises legislation and administration, and, like the first, is one form of the human factor. It is difficult to say whether in a perfectly logical arrangement this should precede or follow the first sub-head, for while it is true that individual economic activities largely shape legislation and administration, still it is equally true that these latter in turn profoundly affect individual economic activities. Thucydides says that the explanation of all historical occurrences is that events are mutually to one another as causes—that *A* causes *B* and *B* in turn causes *A*. It is as true of men and laws in their relation as of natural forces that action is accompanied by reaction. Men make laws, and these in turn in their reaction make men what they are.

The industrial importance of legislation and administration is generally underestimated. Even where government is reduced to its lowest terms it must still do much to make possible the existence of an orderly, peaceable society. What would be the condition of property and inheritance without laws? Property could not exist at all, in our present sense of that word, without government—for we are now considering the right and not the things over which that right is exercised. Laws regulating the inheritance of property exist everywhere, and profoundly affect the character of the national economy, making one country radically unlike another.



Laws governing the relations of man to wife are found in every civilized nation, and these have to do with economic relations as well as with other relations. Laws of contract, laws establishing patent-rights, laws designed to protect children and other helpless classes, may all be mentioned as illustrations. And we must not forget that laws may exercise a very powerful influence for evil as well as for good. It is a common tendency of writers in these days to reduce to a minimum the importance of laws for good as well as for harm. This tendency is undoubtedly a safer one than that which prevailed before, the tendency to think and write as if all human ills could be obviated in a short period by laws framed with sufficient wisdom. But the pendulum of thought swings too far back. Laws are not all-powerful, but they are, nevertheless, powerful within wide limits, and the influence of their action is cumulative; it grows by indirect results as well as by direct action from generation to generation.

A comparison of France and England reveals most marked differences in their economic life. The English farmer, renting his farm from a great landlord, and the agricultural laborer are prominent features of rural life in England, while small peasant proprietors, farmers tilling their own little estates, attract the attention of the traveler in France. What is the cause of this difference? Certainly the law has much to do with this; for in England primogeniture and entail obtain, while in France a father is compelled by law to divide the bulk of his property equally among his children. It has often been claimed, and with much appearance of reason, that the English law, by encouraging the bequest of the bulk of great estates to the eldest male heir, has furnished to the field of exploration and adventure a swarm of "younger sons" of noble blood, and that this fact has had much to do with England's predominance as a colonizing power.

With the progress of civilization, land, or the physical element, becomes relatively less important, and man, or the human, psychical element, becomes of relatively greater signifi-

cance. In fact, it is precisely this gain in importance of the one element upon the other that is sometimes said to constitute civilization. Man's domination of nature marks the progress of the race. Once a city could exist only on a great body of water, but the highways of modern times enable cities to spring up a hundred miles from any important navigable stream.

## CHAPTER IV

## EVOLUTION OF ECONOMIC CIVILIZATION

**The Law of Change.**—The next main point to engage our attention in our examination of the characteristics of a national economy is the fact of successive changes in its historical formation. Nothing marks the man of thought more clearly to-day than his grasp of this fundamental concept of orderly change. We are all familiar with the blindness to this truth that is revealed in the talk of the uneducated, and it is not impossible to hear it from the lips even of those who might be expected to have greater light. Whenever changes in laws or institutions are suggested, they will smile in a superior kind of way and say, "It does very well for the theorist to talk about such things, but it is only theory." Conditions of property, labor, and capital cannot, in their opinion, be changed, and they assume that such as they are now they will continue to be. "No," say they, "things will go on in pretty much the same good old way." Now, if there is any such thing as a good old way in nature or in society, the man has never yet appeared who discovered it. There is none. The assumption that there is such a thing is a mere fiction. Take the one economic factor of labor. As we trace it through the centuries we find it in a condition of slavery, in a condition of serfdom, and in a condition of free contract. But these are only names for the three general conditions in which labor has been found. Within each one of these conditions there has been a multitude of changes. Slavery has assumed a vast variety of forms, some extremely harsh and some extremely mild, with almost infinite gradations between the two extremes. Serfdom at times appears as harsh as slavery, and again it is found in forms which differ little from freedom, and which are

doubtless in some respects superior to the condition of the ordinary laborer who is free to make his own bargains, or who, as we say, lives under the *régime* of free contract. Free contract, in its turn, means many different things: sometimes, indeed, it means the oppression of the employee by the one who employs labor, but more often and more uniformly it means a state of practical dependence of the laborer on account of the pressure of economic necessity. At times, indeed, it means a dependence which virtually amounts to slavery, as has been seen in the case of tailors in some of our large cities employed by so-called "sweaters," or small contractors, who have reduced their workmen to such a condition that perhaps a dozen have only one coat among them, and are kept prisoners in the dens where they work. Combinations of laborers are now introducing changes in the *régime* of free contract, for organizations make contracts for a multitude of individuals, substituting what is called collective bargaining for the older individual bargaining. Laws undergo change, and institutions, which are the outgrowth of law and custom, are therefore gradually but perpetually undergoing modification. Property, for instance, is in a continual flux. A large part of landed property was once common property; that is to say, it was owned by a body of persons, town, state, or city, in their organic capacity. Village communities once owned land which was usually divided into "commons" and individual holdings. The greater part of land in civilized nations has, within the last few centuries, become the property of individuals, but we now observe a reverse process of some significance. In modern countries forests are once more becoming public property, and the process has begun even in the United States. It is bound to continue. We also see cities purchasing—in some cases repurchasing—land for public purposes, especially for pleasure grounds. One great species of property—railways—has in Prussia passed out of private hands into those of the state, and the conditions under which their railways have been chartered are likely to bring this about in a comparatively near future, in Austria, France, and elsewhere. The tenure of



private property—or the conditions under which it is held—also changes from time to time, now in one direction, now in another.

**The Evolution of Law.**—A distinguished student of early law, Sir Henry Sumner Maine, has clearly shown the perpetual changes which all law undergoes. "We are in danger," says this jurist, in his *Early Law and Custom*, "of overestimating the stability of legal conceptions. Legal conceptions are indeed extremely stable; many of them have their roots in the most solid portions of our nature. . . . This great stability is apt to suggest that they are absolutely permanent and indestructible. . . . What I have stated as to the effects upon law of a mere mechanical improvement in land registration is a very impressive warning that this position is certainly doubtful, and possibly not true. The legal notions which I have described as decaying and dwindling have always been regarded as belonging to what may be called the osseous structure of jurisprudence; the fact that they are nevertheless perishable suggests very forcibly that even jurisprudence itself cannot escape from the great law of evolution."

**The Necessity of Historical Study.**—We find marked economic differences between various periods in the life of one nation, and almost equally marked differences between the economic institutions of contemporaneous nations. All this shows, first of all, the necessity of a careful historical and statistical study of economic activities and institutions in the past and in the present. In the second place, it reveals to us the folly of those who would prescribe the same laws for all people and for all times, or who would pass judgment on the institutions of Prussia under Frederick the Great as if these same institutions existed to-day in America or in England.

Though the evolution of our economic life proceeds very gradually and without interruption, yet in taking a survey over human history we discover such marked differences in the social institutions of times separated by long intervals that we divide this evolution into parts which we may designate as stages. This division, therefore, is simply for convenience of

treatment and of study, and is in no way to be taken as implying sharp transitions from one state of things to another. Rather, we must always remember that the stages which we shall describe shade into one another by such minute steps as mark the division in botany or zoology of the varieties which show the greatest likenesses between two closely related genera. We mean, then, by stages in economic development changes and advances in the methods of procuring economic goods, in their character, variety, and number, in the distribution of goods, in the manner in which wants for material and immaterial goods are satisfied; in short, in all that is included in the designation economic life.

**Prehistoric Economy.**—Prehistoric man, as there is abundant evidence to prove, obtained material goods, as beasts do, by simply taking possession of natural products, exercising little or no control over nature, and protecting himself from the elements only by caves or the simplest contrivances. The construction and use of his rude buildings appear to have been learned from the lower animals, and anthropologists agree that even the simplest improvements in this and other matters were the work of ages. Man was in such a condition a slave of nature. Human law did not restrain him. There was no law, as there is no law to-day in the "heart of Africa." Nevertheless, the modern man, whose daily life in a thousand ways is guided, directed, and controlled by the statutes framed by himself and others, is a thousand times freer. Wise laws increase freedom. Economic freedom is a far more important thing than political freedom, but the two are quite different. What advantage is it to me to have the legal right to take a trip around the world if I never have the economic means—never have the economic freedom—to enable me to do so? What advantage is it to be able to seek another employer, provided there is no other who cares for my services, and my present employer alone stands between me and death by starvation? Thus the savage is free to come or to go, to work or to play, so far as laws of man are concerned, but nature enslaves him more pitilessly than would Draconian laws.

"The true savage," says Sir John Lubbock, in his *Prehistoric Times*, "is neither free nor noble; he is a slave to his own wants, his own passions; imperfectly protected from the weather, he suffers from the cold by night and the heat of the sun by day; ignorant of agriculture, living by the chase, and improvident in success, hunger often stares him in the face, and often drives him to the dreadful alternative of cannibalism or death." With the foregoing passage should be compared the following sentences from Sir Henry Maine's *Early Law and Custom*: "With us, I need scarcely say, there is little conscious observance of legal rules. The law has so formed our habits and ideas that courts of justice are rarely needed to compel obedience to it, and thus they have apparently fallen into the background."

**The Economic Stages.**—This earliest existence of the human species—earliest at any rate from the standpoint of evolution—is something so remote, and something about which our knowledge is so fragmentary and uncertain, that we are scarcely able to treat it as a separate stage in economic evolution. It is for that reason that we use the term prehistoric in describing the economy of that early time. We therefore begin our description of economic stages with the time when men had learned to kindle fires, to eat meat, and to live in some kind of political communities, however imperfect, and we divide economic development from that time to the present into five stages, as viewed from the standpoint of the production of material goods, and into three stages, as viewed from the standpoint of the transfers of these goods. The second classification of stages must be regarded as subordinate to the first.

The following are the stages into which we may roughly divide economic progress from the standpoint of production:

1. The hunting and fishing stage.
2. The pastoral stage.
3. The agricultural stage.
4. The trades and commerce stage.
5. The industrial stage.

But as we have just said, we may now ask the further question, How are goods transferred from person to person? When we examine historically the methods of transfers of goods, we find that we may divide economic progress from the feeble beginnings of civilization to our own day into three stages, as follows:

1. The period of truck economy.
2. The period of money economy.
3. The period of credit economy.

The stages included in both of the above classifications will be briefly described in the following chapter.

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**Literature.**—Sir John Lubbock, *Prehistoric Times*, chapter xvi, entitled "Concluding Remarks;" Drummond, *Tropical Africa*, chapter iii, on "The Aspect of the Heart of Africa: The Country and People;" Stanley, *In Darkest Africa*; Lester F. Ward, *Dynamic Sociology*, Introduction; M. de Laveleye, *Primitive Property*, especially his preface to first edition, and chapter i.

## CHAPTER V

## ECONOMIC PROGRESS VIEWED FROM THE STANDPOINT OF PRODUCTION AND FROM THE STANDPOINT OF TRANSFERS

## I. Economic Stages Viewed from the Standpoint of Production

**1. The Hunting and Fishing Stage.**—In the first economic stage of man's development nature is the principal factor in production, labor, and to an even greater degree capital, playing very subordinate rôles. Man still contents himself with what nature gives. Labor is expended chiefly in procuring her bounties. Animals are not tamed and rendered subject to man; still less can any traces be found of attempts to improve useful animals by breeding, or, in other words, to use Mr. Alfred Russel Wallace's happy phrase, by the substitution of man's selection for natural selection. Products are not transformed by manufacturing processes. Goods are not even stored up in time of abundance to make provision for a future time of dearth. The American Indian, in places where he has not been elevated by contact with a higher civilization, is a type of this stage of evolution. He lives in a condition of gluttony when the hunt is successful, wasting good food with unconcern, and suffers the following week when good fortune no longer waits on his bow and arrow. In this respect, as in others, he exhibits those traits which mark the child among civilized men.

Economic action is relatively isolated. It is confined mainly to the family, within which there is a rudimentary division of labor, but no common organic activity. Goods are acquired not for exchange, but for immediate use, although, if we may judge from the traits of American Indians and the



negroes of Africa, there is no unwillingness to make exchanges when opportunity offers to get something new and attractive. Indeed, it is a matter of almost universal observation that want and the economic activity necessary to satisfy the want may be stimulated by presenting to the view of savages objects which are unfamiliar to them, but which minister to the lowest cravings of human nature.

As there is no real division of labor, there are no economic classes; no employers, no employees, and no industrial conflicts. The very vocabulary of modern political economy, including all such words as wages, capital, strikes, lockouts, taxation, arbitration and conciliation, and customs duties, must, in the nature of things, be wanting. The phenomena of so-called over-production or under-consumption and crises are as unknown to people living in this stage as is the economy of the possible inhabitants of Jupiter to us. The greater part of property is common, as is all land. Private property is confined to one's arms, one's household goods, and the immediate rewards of one's labor.

**Hunting Tribes.**—Although both belong to the same economic stage in our classification, there is some difference between those living primarily on the products of the chase, and only secondarily on fish, and those who reverse the process. The environment of each class modifies essentially its characteristics. Confining ourselves for the moment to those living in the hunting stage, we find a high development of such qualities as cunning, endurance, skill, and bodily strength, but we also find that the mode of life does not lead to the development of technical skill nor to a reflection upon the processes of nature. This condition of life presupposes large territories and a sparse population. It has been estimated that in a population like this, living solely on the products of the chase, each hunter requires fifty thousand acres, or seventy-eight square miles, for his support, an area which in Rhode Island maintains, on an average, over twenty-five thousand people. In this connection it may be of interest to note that careful students believe the present American Indian popula-

tion to be much larger than it was at the time of the arrival of the European races, an opinion at variance with a commonly received notion. There seems to be reason to suppose, however, that the above calculation regarding the possibility of population among savages is an under-estimate of the population which can be supported by the chase. It is certainly an under-estimate if any subordinate means of support exist, like fishing. Berries have almost always been a minor means of support, as has other wild fruit. Even making this allowance, however, we still conclude that the population must be sparse, and that for the barbarians living in this stage wars may be regarded as an economic necessity whenever there is not an abundance of unoccupied land, just as cannibalism has been described as an economic necessity for human beings of the most degraded sorts. The perpetual warfare with man and beast, which is a condition of his existence, develops the bravery that has been so much admired in the American Indian.

**Fishing Tribes.**—As might be expected, those primitive peoples who live primarily on the products of fishing are more peaceable than are the hunting tribes. Their population is denser, both because of their more peaceful disposition and because of the fact that a smaller area is sufficient for the support of a given number of people engaged as they are. A larger accumulation of the products of past labor—or capital—is found among them because they have less need of frequent migrations. Dwellings are of a more permanent character, and boats and fishing implements are constructed. Labor is a more important factor, and on the whole the power of man over nature is greater than among the hunting tribes. People living in the fishing stage can now be found only in the frigid zone. Tribes living on the produce of fishing have seldom become nomads, but have commonly become agricultural, and often they have taken early to commerce and navigation.

**2. The Pastoral Stage.**—When hunting tribes begin to domesticate animals they enter usually upon the pastoral stage.

The earliest chapters of the Bible give us vivid pictures of peoples living in this period of economic development. Man no longer lives merely by taking what nature offers, but he acts upon nature. He has begun to gain control over nature. The element of labor comes forward more prominently, in seeking pastures and in protecting the domesticated animals. Families, clans, and tribes living in this stage have no settled abiding place, but wander to and fro on the face of the earth in search of food for their flocks. As land is not cultivated, a large area is required to support a single family, and over-population is therefore a frequently recurring phenomenon. In case of pressure of population, tribes either separate, part going one way and part another, or they attempt to get more land by conquest of others. In the thirteenth chapter of Genesis occurs a passage describing such a separation: "Abram was very rich in cattle, in silver, and in gold. . . . And Lot also, which went with Abram, had flocks, and herds, and tents. And the land was not able to bear them, that they might dwell together: for their substance was great, so that they could not dwell together. And there was a strife between the herdmen of Abram's cattle and the herdmen of Lot's cattle. . . . And Abram said unto Lot, Let there be no strife, I pray thee, between me and thee, and between my herdmen and thy herdmen. . . . Is not the whole land before thee? Separate thyself, I pray thee, from me: if thou wilt take the left hand, then I will go to the right; or if thou depart to the right hand, then I will go to the left." Where can there be found a more perfect picture than this which sets before us so neatly and so vividly the economic conditions of the time and place?

But, as has been said, attempted conquests frequently take the place of such peaceful separation, and tribes which are too large for the territory already occupied seek to gain more room by displacing others. It was such over-population that brought about the warlike incursions of barbarian hosts into Europe from the heart of Asia, and the wanderings of the nations in the early centuries of the Christian era. This part



of history, like others, cannot be understood without a knowledge of political economy.

Land was still for the most part common property; common, that is, to members of the tribe, for rights of members of other tribes to property or even to life were not recognized. Within the tribe or nation, if we may properly use the latter expression, there was a very real brotherhood, but ethical ties did not pass beyond tribal bounds. Stranger and enemy are often denoted by the same word, and the idea thus indicated has lingered long in the common speech of men. Even the tribal claims to land can scarcely be designated by the modern word property. The only right in the land was one of possession, which is really the right of use as distinguished from the right of property. This must not be understood to mean that there has ever been a time when no such thing as a right of private property in land existed, or when land was never bought and sold. Stationary peoples existed contemporaneously with wandering tribes, and, even while the greater part of the land was held in common, some pieces of land may have been private property. Abraham, it will be remembered, bought of Ephron, the son of Zohar, a field for a burial place for Sarah, his wife, and paid therefor four hundred shekels of silver. Yet the ceremonies connected with the purchase indicate that the land had belonged to the tribe, and that even at the time of the transaction the sale was not merely a private one between Abraham and Ephron, the son of Zohar, but was one in which the members of the tribe felt themselves concerned. The pastoral stage, nevertheless, allowed large accumulations of property in the form of cattle and precious stones, precious metals, and finely woven fabrics, or, in general terms, of capital.

**Extremes of Wealth.**—We also find in this stage enormous differences among the possessions of various members of the clan or the tribe. The poor, the well-to-do, and the rich already exist. Abraham, for example, was “a mighty prince.” Among the sons of Heth men are divided into employers and employed—the latter generally slaves—and economic classes

are formed. Slavery had not been a possibility in the first economic stage, for maintenance without weapons was impossible, and masters could not arm their slaves. The conquered had therefore been slaughtered in that earlier stage, but in the pastoral stage their lives were frequently spared and they were reduced to slavery. Thus a milder form of warfare was introduced. Women and children were evidently spared earlier than were the conquered males, who were frequently massacred even in the days which followed the beginning of the pastoral stage, and, indeed, even after the later stages of economic development had begun.

A more regular economic life and a higher degree of probability of permanent sufficiency of food succeeded the former irregularity of superfluity and direst want.

Exchanges in the pastoral stage are still the exception. The economy of each family or household is for the most part sufficient unto itself.

The leisurely and often quiet mode of life and the nature of the work—watching the flocks in the open fields—leads to an observation of natural phenomena, especially those of the heavens, and astronomical knowledge in a rudimentary form arises. Religion and poetry were also the outcome of their contemplative and reflective life. As regards the matter of poetry, it is to be noted that highly figurative speech is always common in the language of shepherds.

We find among these nomads a high appreciation of personal freedom, and we find warlike customs flourishing, but there is among them no feeling for home. Patriotism, as we understand it, was of a later growth.

**3. The Agricultural Stage.**—Agriculture is in the third stage added to the keeping of flocks, to the chase, and to fishing. A greater variety of food is thus offered to man, who now ceases his wandering life. A denser population becomes possible, and the union of different settlements into a larger political whole gradually forms the modern nation. Dwellings now become finer and more substantial, and in the course of time there is an increase in the number of objects included

in private property. In consequence of these conditions the interests on the side of quiet and orderly progress become stronger. It is, however, not clear that increase in the number of objects included in private property always accompanies immediately or for some time thereafter the transition from the pastoral and the nomadic stage to the agricultural. Indeed, if we may judge from the researches of Sir Henry Maine, there appear to be evidences of an opposite tendency. Village communities were probably the earliest form of settled agricultural life among the Aryans, and these continue in East India, in Russia, and elsewhere, even to the present day. Land belonged to the village, and the arable portion of the common territory was allotted from year to year or for longer periods to the members of the community, while pasture land and forest land were used in common. This has been generally recognized and acknowledged by students in this field, but it appears that frequently movables were also common property. Even to-day, in Montenegro, there are village communities in which the earnings of a member who has left the community and gone out into the world are still claimed by the community. Sir Henry Maine tells us also of a Russian village, or *Mir*, the chief income of which is derived from a boarding school kept by ladies who are members of the community. Where, however, there has been no village community, or where a previously existing community has ceased to be, rights of private property appear to expand gradually and steadily, and, in accordance with the general evolution of economic society, to cover an increasing number of things. The general rule in this stage is communal property in land with personal rights of usufruct. Each one has certain rights according to his needs and situation—possibly also according to rank—in the common pastures and common lands. Love of home and country now for the first time arise. Production is still largely carried on in comparative isolation. Things produced are consumed chiefly in the household, and few exchanges take place. Such commerce as exists ministers chiefly to luxury. This long continued to be the case, and the fact serves to explain, at

least in part, the hostility which ancient philosophers and the fathers of the Church displayed toward commerce.

This stage endured for centuries among many peoples. In the development of our modern civilization it did not evolve into the higher form until the tenth and eleventh centuries, when the movement which the Germans call the *Städtebildung*—the building of the cities—began. It has not been wholly displaced by subsequent stages of economic life, but only modified, unceasingly modified, with the progress of time. Even to-day the marks of this stage of life are clearly discernible in our industrial life in America. The word “common,” as applied to certain public lots in many old cities and villages, is an instructive survival. The Boston “Common,” to which Emerson as a lad drove his mother’s cow, and the “commons” of other New England towns, pieces of land still left in common ownership, are parts of larger tracts on which all citizens had rights of pasturage and other rights of usufruct.

**4. Trades and Commerce Stage.**—In the fourth stage hand labor, so called, becomes an important factor. Raw materials are transformed by the skill of man, and his power over nature becomes more marked. Commerce does not spring up suddenly now, for it has already existed, but it begins to play a far more important part in industrial life, and the finer products of one region or country are exchanged for those of another. Even bulky products not quickly perishable are transported long distances when this can be done by water. On the seacoast and on great rivers important cities arise, and become centers of culture and refinement. Mines are worked, the use of money becomes more general, and a radical change in the entire economic life of the nation is observed. Social life now becomes truly organic, and the people who live it have entered upon the era of modern civilization.

**Economic Classes and the Rise of Cities.**—The division of labor, beginning on estates of powerful temporal and spiritual lords and in convents, gradually extends, and population is divided, according to occupation, into a large number



of economic classes. Cities, the most active centers of the new life, become objects of hostility to old magnates, and as a result they frequently unite for self-protection with distant and more powerful princes against feudal lords, and at the same time strengthen their central powers. Dependents of feudal lords are encouraged to flee to the cities, and the legal maxim is established, "City air makes free." Residence in a city for a year and a day makes a former serf a free man. Guilds of free men are gradually developed, and these foster the growth of trades and commerce, using their power for good at first, but later, in a period of decay, for evil—in the establishment of exclusive privileges and onerous monopolies. Changes in economic legislation and administration take place. Nonmaterial products are bought and sold, and writers, teachers, and artists find a place as regularly established classes in the national economy. In antiquity, the Egyptians, Phœnicians, Assyrians, Medes, Persians, Greeks, and Romans occupied this position. The civilized nations of the present day lived in this stage until the nineteenth century, and the people in our Southern States did not issue from it until the civil war.

**5. The Industrial Stage.**—The industrial stage is the period in which the great civilized nations of the earth are now living, and to a description of which the rest of this book will therefore be chiefly devoted. We observe in this stage far-reaching changes in the economic arrangements of society, due largely to a marvelous extension of the principle of division and combination of labor. This was made possible—was indeed necessitated—by the application of steam to industry and to improvement in the means of communication and transport. Political freedom and nominal legal equality of all men—once regarded as a mere Utopia—are now realized. The sciences and arts have advanced with giant strides.

Before we pass on to a description of some of the general characteristics of modern economic life we must devote a few pages to a discussion of the three stages into which economic progress may be divided with respect to transfers of goods.

## II. Economic Stages Viewed from the Standpoint of Transfers of Goods

**1. Truck Economy.**—Truck economy is the term used to denote the character of the economic life of the period which precedes the use of money. The word barter is often used to designate the life of the period, but that term is too narrow. Barter implies mutual or two-sided transfers, whereas the element of reciprocity is often absent in transfers of goods. We have in our study to do not merely with two-sided transfers, but also with one-sided transfers, such as taxes, gifts, and inheritances. Barter, therefore, though it comprises the greater part of transfers, is to be included as a sub-head under the more general category of truck economy. We have, then,

A. One-sided transfers of goods.

B. Two-sided transfers of goods, or barter.

And the second kind of transfers we must further classify as follows: *a*, barter of material goods for material goods; *b*, barter of material goods for services; *c*, barter of services for services.

**2. Money Economy.**—In the second period in the history of transfers the use of money as a medium of exchange becomes common and displaces truck for the most part, though transfers without the intervention of money are still frequent.

**3. Credit Economy.**—In the third stage credit is the instrument for the greatest number of exchanges. Money is still used, but, in places where the highest development of credit economy obtains, it is used only as "small change." Banks are the chief organs of society for credit economy. The volume of money is small when compared with the amount of annual transactions in what are called instruments of credit, by which we mean principally checks, drafts, and bills of exchange. The receipts of banks are calculated in terms of money, but an American bank in a great city will in a day's business frequently handle over fifty dollars in instruments of credit for every dollar in actual money. It should

be remembered in this connection that many peculiarly modern phenomena are due to credit. Thus crises and so-called over-production are undoubtedly closely connected with credit economy.

**The Economic Stages not Mutually Exclusive.**—It must be borne in mind that the two classifications which are here given view the historical development of economic life from two standpoints, and that the second classification is to be regarded as subordinate to the first. If we were to attempt to bring the two classifications into relation in point of time, we would say that the period of truck economy is coincident, in a rough kind of way, with the hunting and fishing and pastoral stages, and continues on into the stationary agricultural stage until that begins to pass over into the trades and commerce stage. True, a great deal of truck and barter still occurs in the trades and commerce stage, but money has become a general medium of exchange, and, all things considered, this stage might with propriety be called a period of money economy. Credit economy is really only a part of the industrial stage, and belongs to the nineteenth century. One fact alone is sufficient to illustrate the vast change from the eighteenth century to the nineteenth. Banks existed before the present century, but were comparatively few in number, were chiefly confined to a few cities, and were not an essential part of the entire national economy. There were, for example, only three banks in the United States at the time of the adoption of the Constitution, while now some four thousand national banks are doing business in our country in addition to over eight thousand banks that are organized under state laws. Banking means credit economy.

It has been urged, in criticism of our second classification, that money does not exclude truck, and that credit does not exclude money, but this can scarcely be offered as a valid ground against the division of economic progress into these three periods. For that matter, money is found even in the period which we ought to call truck-economy. These terms signify simply the dominant characteristics of periods which



gradually and almost imperceptibly shade into one another, just as in classifications in the organic sciences the vegetable kingdom shades off into the animal kingdom.

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**Literature.**—The literature in English touching this economic progress of man through stages is inadequate, although in recent years it has received many valuable accessions. Several valuable works exist on the origin and growth of civilization, but they do not deal with the subject from an economic standpoint, and it is necessary to place many incidental remarks together to obtain a picture—even so imperfect as the one here presented—of the economic life of the tribes and nations discussed. The following works will be helpful:

Sir John Lubbock, *Prehistoric Times*, and *Origin of Civilization and Primitive Condition of Man*; Dr. Daniel Wilson, *Prehistoric Man*, dealing chiefly with natives of America; Reports of the Bureau of Ethnology, connected with the Smithsonian Institution, Washington; Morgan, *Ancient Society*; Taylor, *Anthropology*, particularly chapters ix to xi; Sir Henry Maine, *Ancient Law*, *Village Communities in the East and West*, *Early History of Institutions*, and *Early Law and Custom*, especially chapter viii in the last-named book; Mackenzie Wallace, *Russia*, for a popular account of the village community; Stepniak, *Russia Under the Tsars*, especially the first chapter; Thorold Rogers, *Work and Wages*, for aspects of English progress during the last six centuries; Toynbee, *Industrial Revolution*, for an admirable treatment of recent changes; Rand, *Selections Illustrating Economic History Since the Seven Years' War*, which gives a history of the modern period in the form of original documentary material; Ashley, *Introduction to English Economic History and Theory*; Cunningham, *Growth of Industry*; H. de B. Gibbins, *Industry in England*; and John A. Hobson, *Evolution of Modern Capitalism*, which is especially to be commended to the general reader. Some general economic treatises in English contain parts which deal inadequately

with the subject-matter of this chapter, as, for example, the Preliminary Remarks of John Stuart Mill's *Political Economy*, and chapter vii of Book I of Marshall's *Economics of Industry*. German literature is rich in works dealing with the evolution of economic life. Perhaps no brief sketch is better than Schönberg, *Volkswirthschaft*, which serves as the first monograph in the *Handbuch der Politischen Oekonomie*, edited by him. The present author has derived more from Schönberg for Part I of this work than from any other source. Knies has treated the subject admirably in his work, *Politische Oekonomie vom geschichtlichen Standpunkte*. These works have unfortunately never been translated. An important sketch of economic development has been given by the able protectionist, Frederick List, in his book *Das Nationale System der Politischen Oekonomie*. Two translations of this work exist: an early one by G. A. Matile, which appeared in the year 1856, and a later one by Sampson S. Lloyd, M. P., which appeared in the year 1885. M. de Laveleye's work on *Primitive Property* traces the evolution of property, especially in land.

## CHAPTER VI

## THE PRESENT STATUS OF ECONOMIC SOCIETY AND OF ECONOMIC PROBLEMS

**Economic Problems not Local.**—We have reached the highest stage of economic life that has ever been attained by man, and yet there were never so many economic questions pressing for solution as at present. No nation is peculiarly situated in this respect, though narrow ignorance in each nation assumes that discontent in that particular land is without foundation. It is particularly noticeable that there is a very general tendency among the people in modern countries to ascribe discontent to the agitation of foreigners. The truth is, however, that the general features of industrial society are similar in all modern countries. It is therefore rather in the nature of industrial society itself that we must look for the causes of the existence of pressing economic questions. What are these causes?

**1. The Industrial Revolution.**—We must first notice the fact that far-reaching changes in the socio-economic life of nations have recently taken place, and that these have succeeded one another with surprising and unprecedented rapidity. These changes have been brought about by advances in science and art acting through discoveries and inventions. So rapid have been the changes of the past century that it is customary to speak of them in a body as constituting what is called the industrial revolution. Our space is so limited that it is impossible to dwell long on the remarkable features of this recent development. Let the reader, however, call to mind the many things in our economic life which the world never saw before. He will, of course, think at once of the railway and of steam navigation, and of other applications of steam to industry. But these have brought about other im-

portant new phenomena. The concentration of large masses of working-people in great factories of which they themselves own no part, and under a single employer, is something new in the case of skilled mechanics. We do not mean that nothing of the kind has ever existed before, but that the phenomenon is so much more common and affects so many more people that in its social aspects it is new. In the last century, and for centuries before, artisans generally owned the tools which they used, and, after they had fully mastered their trades, usually called no man master, but worked in their own little shops. Even within the memory of the author this condition of things has become much less common. The smith under the spreading tree, of whom Longfellow sang, is disappearing. He is leaving the crossroads in his little village and will soon be at work in a machine-shop. His friends, the carpenter and the shoemaker, are accompanying him. A few artisans may stay to do repairing and other small work, but the cheaper processes of vast establishments have rendered migration for the many inevitable. Only the few among artisans can live in the old style. Few villages are keeping pace with the increase of the country's population. Articles formerly made in small villages are now manufactured in large cities, near by or remote. Thus even houses are sometimes constructed in large establishments, and are sent to small places where it is only necessary to put them together. Merchants have also been obliged to leave the villages, where they were owners of independent establishments, to seek employment in immense city retail and wholesale shops, because the railways have carried their customers away from them. The amount of production increases continually, but the number of separate producing establishments decreases just as steadily. Dr. Albert Shaw, editor of the American monthly *Review of Reviews*, presents a good illustration of this concentration in the milling business in the following quotation from an article by him in the *Chautauquan* for October, 1887: "The completion of the great mills has caused the abandonment and decay of hundreds of the picturesque, old-fashioned neighborhood mills. In

1870, according to the census of that year, there were in the entire country 22,573 grist mills, 58,448 hands, representing \$151,500,000 of capital, and making a product worth \$144,900,000. In 1880 the number of establishments was 24,338, the number of hands, 58,407, the capital invested, \$177,300,000, and the value of the product was \$505,100,000. (The price of flour had declined ten per cent in this decade.) The increase shown in the number of establishments . . . is more apparent than real, the great bulk of the flour having been made in a decidedly smaller number of mills in 1880 than in 1870. Since 1880 the blighting effect of the great merchant mills upon the small establishments has become visible to everyone. According to the *Miller's Directory* for 1884, . . . there were at that time some 22,940 mills in the country, a decline of 1,398 from the census figures of 1880. . . . From 1884 to 1886 . . . the number of milling establishments has declined to 16,856, . . . a loss in two years of more than twenty-six per cent."

The United States census for 1890 shows that the same concentration marked the decade following 1880. In 1890, according to the government figures, the number of establishments had fallen to 18,470, a further decrease within the decade of about twenty-five per cent; the number of employees had risen to 63,481, an increase of about eight per cent; the capital invested had risen to \$208,473,500, an increase of over seventeen per cent; and the value of the product had risen to \$513,971,474 in spite of a constant fall in the value of the raw material.

Referring to these figures, *The Northwestern Miller* in its issue of May 11, 1894, made the following interesting comments: "The story of the decade in milling which closed in 1890, as told by the census report, is exceptionally interesting, for it shows the effect of improved machinery, condensation of effort, economy of manufacture, increase of capacity, and enlargement of markets, when worked out to a legitimate end. It may also foreshadow the future to those wise enough and broad enough to grasp its lesson. The result is, first, the



wiping out of existence of nearly 6,000 mills, and, presumably the same number of millowners. These 6,000 withdrew from the combat on the introduction of new machinery and the growth of new methods. These could not stand the test and surrendered their places to those who survived them. Twenty-five per cent of the contestants for supremacy laid down their arms to circumstances which they were powerless to overcome. The remainder, presumably the 'fittest,' at any rate, the survivors, occupied the field, under the new rules of warfare, with new methods of fighting. These, at the next day of reckoning, the next milepost, stand accredited with owning over \$30,000,000 more capital, employing 5,000 more men, paying out over \$10,000,000 more for wages, and manufacturing property valued at nearly \$9,000,000 more, although the cost of the material was over \$7,000,000 less. The world has thus gained, for the loss of the 6,000 individual concerns, more flour, at a less price, and the milling trade itself has progressed, in the immensity of its invested capital, in the value of its product, and in the number of its workmen, while the wages of the latter have been increased from an average of about \$300 per annum to one of about \$425, nearly fifty per cent."

It would be interesting to compare these statements and figures with the results disclosed by the twelfth census, but such a comparison must be left to the readers, as the government statistics for 1900 are not yet accessible. In the absence of such definite information, it is of interest to note the opinion of an expert in the milling business. In a recent letter, Mr. W. C. Edgar, manager of *The Northwestern Miller*, writes:

"In our opinion the concentration which marked the decade between 1880 and 1890 has continued during the last ten years at probably even a greater ratio than before. Everything indicates that the number of small mills in the country has enormously decreased, while the capacities of the larger mills have greatly increased. It is impossible to tell what proportion of the general output emanates from the large milling centers.

"The number of mills in the South has undoubtedly con-

tinued to decrease more rapidly than elsewhere, for the reason that the South is no longer to be considered, with the exception of a very few states, as a wheat producer, and where wheat is not produced there is not apt to be a growth of the milling trade. North Carolina, for instance, while credited in 1880 with 1,300 mills, really did not have any flour mills at all, as we understand flour mills. In fact, we do not know of a single modern flour mill in North Carolina, although there are perhaps fifty or sixty mills in that state all told, which grind wheat into flour. Most of the mills put down in Southern states as flour mills are either engaged in the manufacture of corn goods, or they are rude and primitive feed mills, which in this part of the country would not be called flour mills at all. . . . I inclose herewith an article\* published by *The Northwestern Miller* on the milling industry in the United States as shown by the census of 1890. You will note the conclusions which are drawn from this showing, and substantially they stand good to-day. In short, there is no doubt whatever that the manufacture of flour is becoming more and more the work of the large mills of the milling centers and in the milling states, and less and less that of the isolated mill in the country. This is made possible by the enormous increase in transportation facilities, the reduction in freights, and the facility with which the large manufacturer penetrates with his product into the most obscure towns and villages of the country, sending his flour from the centers throughout the most remote localities."

Readers can readily gather from census and trade reports many similar illustrations of this concentration of business, which is one of the main causes of the existence of present economic problems. Self-employment and the employment of others become constantly more difficult, and the number who succeed in escaping the condition of employees is relatively diminishing with the progress of industry. A few escape from the ranks to become "self-made men," as we say; that is, great and wealthy employers of hundreds or even thousands of

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\* *Vide supra.*



workingmen; but they are the exceptions, and must be, so long as present industrial movements continue. Thrift, frugality, and temperance on the part of the masses cannot alter this in the slightest degree. One who excels may rise to industrial power, but his superiority would cease should others emulate his qualities. This fact, which is as simple as multiplication and division, is becoming very generally recognized, and the recognition is producing a widespread restlessness and uneasiness. Many perceive that they can never escape from the lot of workingmen, and that the only way to improve their condition is to elevate their entire class. The solidarity of all interests is therefore coming to be felt as never before.

**Corporations and "Trusts."**—The study of corporations reveals another aspect of the industrial revolution. They now control a large proportion of the wealth of the world and count their employees by the million; yet we find Adam Smith in 1776 gravely arguing in his *Wealth of Nations* that as a rule corporations cannot succeed. At that time the prediction had in it nothing of the strangeness that occurs to us as we read it to-day, for there were then few examples of successful corporations. In fact, Smith could find no examples outside of the business of banking, insurance, "making and maintaining a navigable cut or canal," and "bringing water for the supply of a great city." If you would discover the contrast between that day and this, look through the columns of any recent paper devoted chiefly to manufacturing interests, and you will find that the names of more than half the establishments show clearly that they are corporate concerns.

A further distinct and most remarkable advance upon the concentration which has marked the entire century has been made within the last two decades, particularly in the United States. Before, small industries were being grouped to make large ones. In this last stage of concentration the large industries have combined into national associations which, from one occurrence in the history of the movement, have been called "Trusts." The occurrence to which reference is made grew out of attempts on the part of companies controll-

ing the larger part of a staple product of the United States to secure greater unity of action and an assurance of the co-operation of the participating companies. They finally hit upon the expedient of adopting the legal forms of trusteeship, the individual companies placing their business in the hands of trustees appointed by themselves. Since legislators, who failed to look below mere surface phenomena, outlawed this sort of trusteeship, the corporations which have desired closer unity have found other modes of union. To-day such combinations exist in various forms, and, in several lines of production, the number of active plants, the output of the individual plant, the field of distribution of the product, and a thousand and one other details of the business are definitely determined. Just as corporations are combinations of individuals, the so-called trusts are generally combinations of corporations into still larger corporations. The distinction between the two is apparent, and yet they are both a natural development from existing legal and industrial conditions.

Besides these companies formed from the combination of lesser companies, there also exist various associations of companies, whose bond is more or less close. With some the regulation is almost as minute and strict as is the case with the so-called Trusts, while with others the independence of action of the several companies is but little impaired by the "agreement" or "pool."

**Banks.**—The increase in the number of banks, until to-day they are found in almost every town in the civilized world, is another evidence of the industrial revolution. The business of our time could not be carried on without banks. The failure of a few of the larger ones in financial centers like New York and Boston is sufficient to cause a widespread panic, in which London, Berlin, and Paris are deeply involved.

**Commerce,** domestic and international, has undergone a marvelous change since the day—only a little more than a century ago—when Adam Smith assured English farmers that even with free trade they need never fear any considerable importation of wheat and beef from Ireland, on account of the

expensiveness of transportation! On the one hand commerce no longer ministers chiefly to luxurious living, as formerly, but rather furnishes the necessities of life; and on the other hand it intensifies international competition. The question of the tariff assumes a new importance under the conditions of modern commerce.

On account of cheap transportation, free immigration of foreign laborers has become a thing of unprecedented magnitude. So great has been the influx of foreign labor into the United States, and so many were the abuses of ignorant labor by mercenary and unscrupulous employers, that a federal law has been passed to prevent the importation of labor under contract. The labor market is soon to embrace the world.

**Problem of the Working Day.**—This industrial revolution is, on the whole, in the direction of progress, but it has come so suddenly that it has forced upon us problems which will not be readily or quickly solved. Take, as an instance, the question of the eight-hour day, which has become a live question because, on the one hand, machinery enables us to produce more in eight hours than formerly in three times eight hours, and because, on the other hand, those engaged in great factories find modern production more wearing on the nervous system, more insidiously tempting them to the use of intoxicating stimulants, frequently more deadening to the intellect, and requiring, in consequence, more leisure for recreation and the development of the higher faculties. It can hardly be disputed that if all able-bodied members of society in that part of the world which we commonly speak of as civilized, worked, either with body or mind, enough could be produced in eight hours per day to satisfy the legitimate want of every human being within the confines of civilization. These facts must not be taken as a conclusive argument in favor of the eight-hour day for those engaged in manufactures—manifestly the case of agricultural laborers is different in some particulars—but they do show what has made the eight-hour day a live question.

**Resistance to Improvements.**—These changes in produc-

tion and in distribution, in domestic and international commerce, have been followed by an almost infinite variety of new phenomena, some of them welcome, others unpleasant, distressing, and dangerous to the social structure. The changes mean displacement of labor and capital, and every extensive displacement of labor and capital is, at least for the time being, painful. If it be said that "in the long run" such changes are beneficial to all, it may be replied that men's lives do not last for "the long run." As Mr. Edwin Cannan puts it in his *Elementary Political Economy*, "The short run, if the expression may be used, is often quite long enough to make the difference between a happy and a miserable life." New inventions which render former skill of no account are extremely painful to skilled laborers and their families, who see their industrial and social station thereby lowered. Improvements have, it is true, often been resisted foolishly, but artisans have in this respect shown only common human traits. Lawyers have as strenuously, and far more successfully, resisted reforms which would have diminished their fees.

**Sudden Riches.**—The abuse of freedom on the part of those who are at the same time strong and unscrupulous has been a fruitful cause of trouble. There has been an unusually numerous class of these, because manifold changes have suddenly enriched poor people, and often by mere chance, as in the case of owners of oil lands, natural gas lands, and farm lands where cities have sprung up. Now it is a great strain upon a man's nature to subject him to the temptations involved in new and sudden acquisitions of material power, and inferior natures have not been able to endure it. Parvenus and those whom the French call *nouveaux riches* have given a demoralizing example of soulless, materialistic luxury, and other inferior natures have tried, according to their means, to ape them in their extravagance. Thus has arisen a race in display which has promoted speculation, fraud, and embezzlement. Probably also the hardest employers, those who have most aggravated social troubles, are to be found among these same new-rich.

**Confusion of Private and Public Business.**—The improper extension of private activity to public spheres, as in the case of gas supply, electric service of all kinds, and railways, may be mentioned as a fruitful cause of social problems. Vast increase of wealth has stimulated egoism, and as everyone has been bent on his own concerns, few have stopped to inquire into the proper lines to be drawn between public and private enterprises. Mistakes easily made are only with great difficulty remedied. The railway and the steamship have brought us many good things; but they have brought much evil with the good, and are the cause of perplexing problems. The domination of public interests by private corporations, and the seizure of public property by them without just compensation, are a further cause of uneasiness and anxiety.

For the relations which exist in modern society, for all these new and heretofore unknown conditions, we require new laws, new institutions, and new ideals in legislation.

**2. The New Importance of Capital.**—One recent development may, on account of its special significance, be profitably singled out for more particular treatment. This development is the new force which has come to be indicated by the word capital, and which is brought out still more clearly in the expression "capitalistic production." It is in part this new force which has created modern socialism. Of course capital in some form has existed from our earliest civilization, since capital means simply an accumulation of products of past toil to be used for purposes of further production. But as a separate, distinct, and mighty force, capital as it exists to-day is something new. Capital is the point about which social discussion largely turns, and the phrase "capital and labor" is, in one connection or another, continually on everybody's lips. Yet it is said that the rallying cries for and against capital would not have been even understood in the Middle Ages. It may be asked, "How can this be?" Let us see. The truth is that no one attacks capital in itself, and no sensible man deems it necessary to defend the existence of capital in itself. The socialist, who leads a crusade against



“capital,” is as much in favor of the use of capital as anyone else. Socialists wish even to extend the use of capital. But capital, accumulations of past toil in the shape of food, shelter, clothing, and particularly tools and implements, like railways, steam-engines of all kinds, telegraph and electric plants, while it marvelously increases the production of goods, has become a disintegrating force. Differentiation has accompanied industrial development. It is the present capitalistic mode of production, therefore, which is called in question. The capital is very commonly owned by one class, while the labor is furnished by another class. Now, as we have two distinct classes in production, disputes over the division of goods produced by these two classes are certain to arise. The finished product being given, the more one class receives the less remains for the other, and it is mere sophistry to claim that the interests of the two can be perfectly identical. The diversity of interests which manifests itself in very real industrial conflicts is an inevitable part of that system which assigns labor to one class and capital to another. We have already explained that in earlier times this separation did not exist. Such separation has in past centuries been obviated by a succession of contrivances, which in their time were natural institutions. Slavery, which united in the same hands labor and capital, was followed by serfdom, which, in its manner of allying the interests of employer and employed, is closely akin to slavery. Craft-guilds were another mode of obviating the excessive antagonism of labor and capital. Manufactures were carried on in the Middle Ages by labor and capital organized together in these guilds, which, during their best period, achieved satisfactory results in general harmony. There was, as a regular practice, a gradual progression from apprentice to journeyman and from journeyman to master owning his tools, and all grades worked together. The apprentice lived with the master, and frequently, after passing through the grade of journeyman and presenting his masterpiece, married the master’s daughter. The very word manufacturer, a hundred years ago, had its true etymological



meaning—a man who *makes* things with his own *hands*. Adam Smith speaks about growing rich by employing a multitude of manufacturers, by which he means simply skilled artisans. Custom has also been a powerful factor in maintaining industrial peace in the previous centuries of the world's history. Custom regulated prices and wages, and was often so fixed and settled that it was taken as something almost as much a matter of course as are the laws of the physical universe.

**Plans for Uniting Labor and Capital.**—We have already seen that in the earliest economic stages nature is the dominant factor, while labor is a minor factor, and capital, except in the most rudimentary form, does not exist. As industrial civilization gradually develops, the power of man as seen in labor gradually gains a greater and greater ascendancy over wild nature. Labor is assisted by those tools and implements which are always connected with it, and which are scarcely thought of as existing apart from labor. Labor in this stage is the pivotal point of production. Time passes. Tools and implements are evolved that are a thousandfold more efficient than those of older centuries, but at the same time a thousandfold more costly. What formerly required a year for its doing is now done in a day; but for this many must work together, and great wealth must own the tools. Those helps in production which are represented by capital are no longer mere appendages to labor and subordinate to labor. They now become dominant, and when they become most powerful they are owned by a distinct class, the capitalists. Capital thus follows labor as the pivotal point of production, and because it is a separate force it gives rise to trouble. It pulls men apart and divides them into sharply defined classes. It is this phenomenon that explains the socialist definition of capital. "A negro," says Carl Marx, the great German leader of socialism—"a negro is a negro. In certain relations he becomes a slave. A cotton-spinning machine is a machine for spinning cotton. It becomes capital only in certain relations. Capital is a social relation existing in the processes of production. It is an historical relation.

The means of production are not capital when they are the property of the immediate producer. They become capital only under conditions under which they serve at the same time as the means of exploiting and ruling the laborer." That is to say, Marx limits capital to economic goods in the hands of employers at a time when these goods, accumulated by past toil, have assumed an importance never before known in the world's history. Questions of production on a large scale and on a small scale turn on relative efficiency of capital under various forms of organization. The great problem of the future organization of industrial forces centers in questions connected with capital. The old methods of production have gone never to return. How shall the benefits of the old be united with the advantages of the new? There is a widespread belief that labor and capital must again be united, but when the question of method is raised differences of opinion at once arise. Many believe that the problem can be solved along existing lines by savings banks, building associations, and the acquisition by laborers of shares in the corporations which employ them. Others hold that special efforts should be made to induce laborers to put their small savings together and to acquire capital to employ themselves. Let us say, for instance, that a thousand dollars capital is required for each laborer in a certain kind of business; then a thousand laborers would require one million dollars; a very large sum, but when the amount is divided into a thousand parts, the case by no means appears hopeless. This is what is meant by coöperation as ordinarily understood—the supply of capital by laborers who are to manage their own business, or, at least, to select their own managers. Still others, who do not believe that the obstacles in the way of self-management can be overcome, look to a voluntary sharing of profits by employers with their employees, a method which has been successfully adopted by many capitalists, and which to some extent unites the interests of labor and capital. Another very large class of reformers, who do not believe that joint ownership of capital can ever be brought about by voluntary agreement, look to the

power of government to establish this. These are the socialists. Various reforms will be discussed at length hereafter. It will be seen, however, that all the projects that have been mentioned turn upon discussions of capital, and that all those who advocate these projects desire to make the laborer at the same time a capitalist. It is trusted that this discussion has made clear the significance of the statement that capital has become a new force.

**3. Possibility of Improvement.**—Economic science has shown us the possibility of better things for the masses, and we cannot, therefore, rest quiet with things as they are. Such quiescence or acquiescence is impossible, and if it be possible, it is nevertheless sinful. Our responsibility for the conditions that have been mentioned is something which we feel in spite of ourselves. We may deny it; we may ask indignantly, "Am I my brother's keeper?" But deep down in our hearts and consciences we feel this responsibility, and even while we are denying it we show by our acts and by our conversation that we feel it.

**4. Higher Ethical Standards.**—A fourth cause of social problems, which is clearly related to the third, is the progress of religion—in particular of Christianity—and the development of humane sentiments in all classes. Things trouble us now which one hundred years ago we would have taken as a mere matter of course. The contradiction between our social reality—things as they are—and our social ideal is painful.

Some passages from Sir Henry Maine's *Village Communities* will help us to understand the significance of the progress of Christianity. He is seeking an explanation for the fact that what he regards as economic principles are not universally received. By economic principles he means self-seeking in economic matters—asking the highest price obtainable for salable commodities and purchasing commodities at the lowest price, or buying in the cheapest and selling in the dearest market. Sir Henry Maine evidently approves of self-interest as a supreme factor, but he notices that a moral feeling common in mankind rebels against what he styles, and what are errone-

ously supposed to be, economic principles. The explanation of the reluctance with which self-interest is accepted as a supreme guide is historical. The "market" was originally neutral ground lying where "the dominion of two or three villages converged." These villages were communities, in which custom rather than competition regulated prices, but to the "market" all went as strangers, and for the "market" the idea of "sharp practice and hard bargaining" obtained. "Here, it seems to me," says Sir Henry Maine, "the notion of a man's right to get the best price for his wares took its rise, and hence it spread over the world." Then, after commenting further on the growth of "market law," he illustrates as follows the survival of older ideals: "The repeal of the usury laws has made it lawful to take any rate of interest for money, yet the taking of usurious interest is not thought to be respectable, and our courts of equity have evidently great difficulty in bringing themselves to a complete recognition of the new principle. Bearing this example in mind, you may not think it an idle question if I ask, What is the real origin of the feeling that it is not creditable to drive a hard bargain with a near relative or friend? It can hardly be said that there is any rule of morality to forbid it. The feeling seems to me to bear the traces of the old notion that men united in natural groups do not deal with one another on principles of trade. . . . The general proposition which is the basis of political economy made its first approach to truth under the only circumstances which admitted of men meeting at arm's length, not as members of the same group, but as strangers. . . . If the notion of getting the best price for movable property has only crept to reception by insensible steps, it is all but certain that the idea of taking the highest obtainable rent for land is relatively of very modern origin. The rent of land corresponds to the price of goods, but doubtless was infinitely slower in conforming to economical law, since the impression of a brotherhood in the ownership of land still survived when goods had long since become the subject of individual property. So strong is the presumption against the existence of competitive rents



in a country peopled by village communities that it would require the very clearest evidence to convince me that they were anywhere found under native conditions of society. . . . It is notorious that in England, at least, land is not universally rack-rented." (Rack-rent, it should be explained, is simply a technical English term for competitive rent.) "But where is it that the theoretical right is not exercised? It is substantially true that, where the manorial groups substituted for the old village groups survive, there are no rack-rents. What is sometimes called the feudal feeling has much in common with the old feeling of brotherhood which forbade hard bargains."

Let us now endeavor to understand the significance of these qualifications.

Political economy is supposed by some to be the science of "sharp practice and hard bargaining." It is held to assume the existence of sharp practice and hard bargaining and to justify both, as, on the whole, Sir Henry Maine does. Yet we see that these so-called economic principles could arise only when men met as strangers, and that even up to the present time they are incompatible with the feeling of brotherhood. We may be assured as often as one pleases that it is creditable to "drive a hard bargain with a near relative or a friend," but it is of no avail. There is within man an ethical feeling—a feeling that has grown up as a result of historical experience, and that has been clarified and intensified by religion—which tells us that in our economic life as well as elsewhere we must seek to promote the welfare of our neighbor and brother. This ethical feeling is not to be lightly regarded, for it is the best product of centuries of striving on the part of the best men. Now Sir Henry Maine looks to a disappearance of this feeling of brotherhood to make way for the triumph of the "market," where only sharp practice and hard bargaining obtain. It may be that the first effects of modern improvements in the means of communication and transportation have been to destroy or rather greatly to weaken the feeling of brotherhood, and old local groups have doubtless in consequence been

broken up and their members scattered. It has become easy to wander off to any quarter of the world. But still further improvements in the means of communication and transportation—especially, perhaps, the national and international postal systems—are drawing all parts of the world closer together than ever before, and the fraternal feeling, instead of being limited to a local group of brothers to whom all strangers are aliens, is extending and embracing all men. With an extension of fraternalism there is at first a great weakening of the ethical feeling to which we have referred, for it is noticeable that in phenomena, generally, a widening of the extent is accompanied by a lessening of the intent. It is as if a river were to have its channel suddenly widened. The stream would be broader, but not as deep. But economic bands and the progress of Christianity, which teaches that all men are brothers, are rapidly strengthening the fraternal feeling throughout the wider Christian family which modern progress tends to make a unity in economic interests. An economic world-union of brothers is in the process of formation. It is this that explains a large part of our anxiety and uneasiness with respect to social conditions. It is of no avail to say that business is excluded from the domination of ethical principles, for it is precisely in our economic life that ethical principles of any real validity must manifest themselves. Ethics and economics cannot be thus separated. In other words, the last word of ethics must be as applicable to men in their economic activity as in any other of their fields of conduct. It is conceivable that the older ethics is itself at fault—that the ethical principles which the ages have evolved were themselves only relative to their time, and are now bound under a new order of things to give way to a new ethics of “sharp practices and hard bargaining.” We have said that this is conceivable. It is more than conceivable; it is even a necessary hypothesis for those who would be consistent in their opposition to the application of the older ethics in modern business. For ethics and economics cannot be built up on contradictory data. Let who will frame a new ethics. For



the great majority of mankind the ethical teachings of Christ must continue to be the true basis of conduct in the economic and political as in the narrower social life. And, weighed in such a balance, much so-called economic and political practice will be found sadly wanting. It is only in an imperfect condition of society that sharp practice and hard bargaining can ever appear to men to be morally right. There is a very general determination to make all departments of social life conform to ethical principles, and this is what is meant by the phrase used by the Christian, "The world is the subject of redemption."

**Absolute and Relative Deterioration of the Masses.**—We have examined certain general causes for the existence of socio-economic problems. Accompanying each of these a multitude of forces is at work aggravating or mitigating troubles. A deterioration in the economic situation of the masses may be either or both of two kinds. It may be absolute or relative. Absolute deterioration means conditions poorer in themselves without regard to the economic situation of others or the changed requirements of new times. Absolute deterioration is the exception, but still it is not so uncommon as is generally supposed. Changes involving displacements of labor and capital injure large numbers, and of these many never regain their old position. Economic evils when of a certain magnitude tend to increase spontaneously, as it were, and to aggravate themselves. Children are not educated, there is a falling back to a lower physical, social, and moral standard of life, and progress ceases. This absolute deterioration has, during the last fifty years, been exceptional, though not so in earlier ages, and we have no warrant for the hypothesis that in the future it will not again become common, unless special efforts are made to prevent it.

A relative deterioration is far commoner. This means that large sections of the population have not kept pace in their economic progress, on the one hand, with the advance of wealth and, on the other, with the development of their rational wants and aspirations, to say nothing of the craving for mere

luxuries which has been stimulated by the lavish expenditures of the rich, especially of the new-rich. We are here concerned with the higher demands of people, and, provided these take a right direction, they are to be welcomed, for they are a condition of civilization. Missionaries among degraded heathen find it necessary to awaken wants, even if for mere ornament, in order to incite the savages to action, which is always the first step in progress. Every succeeding step in civilization is accompanied by new wants. Unless these are awakened civilization comes to a standstill, as can be seen among portions of the Canadian French in the Province of Quebec, Canada. Professor Drummond speaks of the few wants of the Africans as an obstacle in the way of the development of their country.

**Wants and Civilization.**—What has just been said has an intimate bearing on many present problems in the United States. We do not desire among us a people with few wants and no aspirations. Such a population can serve only as a drag on the progress of American civilization. At the same time not all wants are legitimate or desirable. As has been explained, wants are infinitely various through a regular scale of progression, and as man advances material wants ought to give way to those of a higher social, mental, and spiritual nature. There is in the United States to-day a dangerous tendency toward materialism, or the placing of material satisfaction too high, to the neglect or forgetting of any higher wants of man's nature. The proper task of the intelligent and interested citizen and statesman is not to try to check the growth of wants, but rather to direct the current into proper channels.

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**Literature.**—Baker, *Monopolies and the People*; Ely, *Monopolies and Trusts*; Jenks, *Trust Problem*; Proceedings of the Chicago Conference on Trusts.

## CHAPTER VII

## SOME GENERAL FEATURES OF THE ECONOMY OF THE MODERN NATION

THREE characteristic features of modern economic life are to be found, in the relations which it bears (I.) to freedom, (II.) to ethics, and (III.) to the State. These will be examined briefly in the order named.

**I. Freedom.**—Freedom must be regarded as merely relative. It has been absolute only in that condition of anarchy in which savages had lived previously to organized government. A re-introduction of absolute liberty would mean a return to primitive anarchy, and any idea of realizing it is absolutely chimerical. Such freedom as exists is relative. Legal restrictions are exceptional; in particular, such legal restrictions as are felt to be burdensome, because, as Sir Henry Maine has shown, obedience to law is in civilized nations mostly unconscious. Law has to such an extent formed us, and is to such an extent, on the other hand, an expression of our universal wish that we for the most part spontaneously obey it. We cannot move without law. It is a condition of the existence of modern civilization. Law makes it possible for us to live our lives in security. Do we own a house? That implies law. Do we go to business every day in a street car? The construction of street-car lines is always made possible by laws. Do we read telegrams? We can do so only because law has made possible the existence of telegraph companies. Do we send and receive letters? It is through an institution which is the creature of law, owned and operated by the government. But, after all, this is not felt to be a limitation of freedom. Indeed, it is only in this state that freedom can be realized. Yet nearly all laws carry with them a "Thou shalt" and a "Thou shalt not." Restrictions which do exist are now, almost with-

out exception, general, or, in other words, are in the interest of the whole people, not of a few privileged individuals or classes. Their aim, as a whole, is to prevent an abuse of liberty; to keep the strong and cunning from injuring others, and thus to increase real liberty.

**Restrictive Laws May Increase Real Freedom.**—The way in which restrictive laws often increase real freedom may be illustrated by an occurrence in Baltimore. The barbers of that city wished to close the barber shops on Sunday. One barber could not close his shop unless all did the same, as he would be likely to lose regular customers. A voluntary agreement was not felt to be sufficient security for Sunday observance. The barbers accordingly raised several hundred dollars to secure the passage of an ordinance compelling them to close their own shops. They were successful, and thus were enabled by the law to carry out their own desires. They were enabled to do what they pleased, and thus restrictive legislation increased freedom. The barbers of another city of the author's acquaintance have not been so fortunate. With a single exception, they have all desired early closing and no Sunday work. The solitary exception, however, has been able to prevent effectual effort on the part of the others. The writer has frequently heard a photographer in New York, who used to do business on Sunday, lament grievously the necessity for Sunday labor, and express a willingness to contribute one hundred dollars to secure the passage of a law closing all photograph galleries on that day. It is thus seen that restrictions upon liberty may arise outside the law, and that the law may increase liberty by helping us to remove these restrictions. This problem of raising the plane of competition, of changing it to the equal benefit of all, but against the opposition of a minority element, the author has called the "problem of the twentieth man." There is probably not a city in the country in which barbers and many others would not change their hours and methods if they could be sure that all would take the same stand. Efforts are very commonly made, with more or less success, at early closing in stores. We may readily believe,



therefore, that in all such places statutory regulation, well enforced, would simply confirm the efforts of the most intelligent and most just employers.

**Increase in Government Regulations.**—We speak continually of the increase of freedom, and imagine often that we have been moving in the direction of no-government. It is probable, however, that laws were never more numerous or more far-reaching in their consequences than to-day. Let us take as an illustration the law under which national banks are organized. We consider that law an excellent one, and never speak of it as an infringement of liberty. Yet every step in the life of a national banking establishment is taken according to law. The amount of capital is prescribed, the manner of investment of a part of the capital is rigidly defined, and the investment of the whole of it is limited, the size of each share is prescribed, the amount which must be paid in is prescribed, the offices are prescribed, the voting power of shares is prescribed. After the bank comes into being it is ordered to publish a minute statement of its condition in the local press five times a year, and four of these times without previous warning, and examiners may without warning be sent from Washington to inspect its books. In contrast with all this we find a great lack of any legal restriction in the case of previous banking systems, as they existed in the first half of the century. It is necessary to examine into these phenomena. It may be said that the laws are now neither less numerous nor less powerful than formerly, but wiser and in many cases more numerous and more powerful. As a rule, they construct a framework within which we willingly move.

**Laws no Longer Special, but General.**—Laws formerly were often special and not general, and aroused animosity because they did not bear on all alike. The laws formerly authorized one to do what another was expressly forbidden to do. A might follow the trade of a carpenter, while B was excluded. C might establish a bank, but D would be thrown into prison if he attempted to do the same. Laws of the last century and of previous centuries were frequently individual or special in

their application and became oppressive. Banks serve again as an illustration of this fact. Early in this century, in all of the states of the American Union, it was necessary for any body of men desiring to engage in the banking business to secure a special legislative charter. Now any body of men who comply with the laws for the formation of banking institutions may organize a bank. The restrictions contained in the laws are of a severity that would not have been tolerated fifty years ago, but they bear on all alike; they are framed in the interest of the people as a whole, and are not felt to be oppressive. To repeat, then, we may say that laws have not been abolished, but that in a great part of the industrial field exclusive privileges have been swept away.

It is well in this connection to reflect on the real nature of freedom. In a positive sense freedom is intelligent obedience to wise law, but frequently, perhaps even commonly, it signifies mere absence of restraint upon our actions, and is thus negative. It may be compared to an empty vessel. Its value depends upon what we put into it. Absence of restraint can hardly be called a good in itself. It may be a curse, or it may be a blessing. It gives opportunity for the development of our faculties to a full and harmonious whole; yet, if we are not ripe for such self-governing as would be made necessary, it may involve our degradation. Children are not fit for it, and their development can better be secured under the controlling influence of a higher authority. Not all nations are fit for it. The Declaration of Independence was the assertion before the world that we were fit for free and uncontrolled self-development. American democracy means the ripeness of Americans for political freedom.

Legal freedom, in its economic aspects, manifests itself in five different ways:

1. **Freedom of Labor** in three respects. In the first place, we should note *freedom of person*, as seen in the abolition of bondage and the establishment of the principle of legal equality. This freedom of the person has become universal in the civilized world only within the present generation. In the



second place, we must notice the *freedom of labor with respect to movement and acquisition*. This means the right to settle where you please and to follow any pursuit you please, so far as any special and individual legal restrictions are concerned. Legal restrictions of a general nature, framed in the interests of the public welfare, exist everywhere, and they are, on the whole, continually increasing in severity. A decision of the Supreme Court of the United States has declared that they violate no provision of the Federal Constitution. Some of these restrictions, such as those imposed upon persons who engage in certain occupations like banking, have been mentioned. To engage in any one of many kinds of business it is necessary to comply with certain prescribed rules and regulations. The business of a plumber in many states is an example. In other countries the requirements in the case of apothecaries or druggists are severe, and they are becoming increasingly so in all our states. Professional pursuits, like the practice of law and medicine, serve as further examples. During the Middle Ages it was necessary to belong to some guild, or trade corporation, to engage in any one of the leading industrial occupations, and these associations regulated, generally under legal supervision, the conditions under which business should be followed.

**The Freedom of Movement** for working people has become general over the civilized world only within the present century. It did not exist in England when Adam Smith wrote his *Wealth of Nations*. It is interesting to note that restrictions on the freedom of movement arose in connection with the laws for the relief of the poor. Each parish was anxious to avoid the care of the poor of other parishes, and many parishes even endeavored to escape their fair burdens by sending away their poor to be supported by other parishes. Consequently it was provided that a workingman, before he was allowed to settle, should be required to demonstrate his ability to support himself without help from the parish, or that he should bring from his former parish authorities certificates by which they bound themselves to become responsible for his

maintenance and for his removal to his former home should he become a public charge. These requirements were so difficult of fulfillment that they kept a large part of the laboring population stationary in the parishes of their birth. These laws regulating residence were called laws of settlement. Of the one in England Adam Smith goes so far as to say: "There is scarce a poor man in England, of forty years of age, I will venture to say, who has not in some part of his life felt himself most cruelly oppressed by this ill-contrived law of settlements."

**"Tramp Laws."**—It is well to notice recent revivals of restrictions on the freedom of movement of wage-earners. The abuses of this freedom in this country have led in many of our states to the passage of "tramp laws," which provide for the imprisonment of a man who wanders about the country without financial resources. Such a person is called a vagabond, and in some cases may be punished by more than a year's imprisonment in a penitentiary. In Georgia and some other Southern states he is put in the chain-gang, and compelled to work for the state. There can be no doubt that the public has suffered severely from vagabonds, and that women in rural districts have been insulted and even assaulted by unprincipled tramps. Property has been destroyed and stolen by them. Incendiarism has in many instances been traced to them. The European laws of settlements grew out of efforts to correct real evils, and in precisely the same manner we are erecting barriers against freedom of movement without, perhaps, appreciating their full significance. While the evils inflicted in portions of the country have been intolerable, we should in matters like this proceed with caution.

Many workingmen in America claim that they have been cruelly oppressed by tramp laws; that they have been misused and even imprisoned while seeking an opportunity to gain an honest livelihood. There can be no doubt that innocent poor people have suffered under these laws. Workingmen have felt this so keenly as to demand in some of the platforms of their

political parties the abolition of all tramp laws. Such a step is undoubtedly too radical. Labor organizations, in some instances, have in a measure remedied the evils of these laws and encouraged the free movement of labor by providing funds for traveling members out of work. Moreover, labor papers and labor organizations help to keep workingmen informed of places where work may be procured, and thus still further promote the free movement of labor.

**Foreign Immigration.**—New limitations on the freedom of international movements of workingmen are noteworthy. The anti-Chinese legislation of the United States and Australia is designed to keep from these countries cheap foreign laborers, and is the most marked example of this recent revival of ancient restrictions. The United States law which forbids Americans making contracts with foreign laborers to come to this country to work is another example. Efforts are being made still further to restrict free international movements of working people.

*The freedom of contract with respect to labor* is the third form in which the freedom of labor manifests itself. This means the legal equality of employers and employees in labor contracts. In a general way it may be said to date from the French Revolution, although it was not universally introduced in civilized countries until much later. Adam Smith and the men of his day expected from it certain beneficent results which have been at best only partly realized. Philosophers of the latter part of the eighteenth century assumed the natural equality of all men, and held that oppressive inequalities were the result of legal institutions. It has become evident, however, that their assumptions were not valid. Economic inequalities place the ordinary employer in a very different position from the ordinary employee, and thus the natural tendency is for the industrially strong to show their superiority in free labor contracts. The industrially strong in all countries are consequently ardent champions of the freedom of the labor contract. Workingmen attempt to equalize conditions preliminary to the arrangements of labor contracts by the forma-

tion of labor organizations, in order that, as capital speaks solidly through one representative, as, for example, the president of a street railway company, labor may also present itself as a unit through some chosen leader.

**Restrictions on Labor.**—The freedom of the labor contract exists nominally in countries like France, Germany, England, and the United States. Everywhere, however, there will be found restrictions on the right of combinations of laborers to make their own bargains in their own way, to work or to refuse to work, to select their own companions during work, and the like. The effect of recent judicial decisions in the United States has been still further to restrict the freedom of the labor contract where organizations are concerned, and to-day such freedom is more limited in the United States than in England, though probably not more so than in France, Germany, or Italy. With England leading the movement in Europe, and Massachusetts at the head of it in the United States, there has been a further notable limitation on doctrinarian freedom of contract in the matter of number of hours of work, employment of women and children, and in other matters of a like nature. These restrictions are wisely based on a correction of the old *a priori* assumption of natural equality among men. As yet courts and legislators are very chary about admitting such restrictions in the case of labor contracts between adult males, because, in their view, the grades of actual inequality are so numerous and so narrowly separated one from another that in most cases it would as yet seem impracticable to draw the line by statute.

**2. Freedom of Landed Property.**—By the expression freedom of landed property is meant the right to buy and sell landed property without legal restrictions. This again is a new right, and it is not fully recognized in England even to-day, where a great deal of the land is entailed. It was introduced in Prussia early in this century by the reforms of the statesmen Stein and Hardenberg. In England the right is often called "free trade in land." In our country it does not exist with respect to lands granted by act of Congress to



Indians, which are inalienable for twenty-five years. Among the Jews it was not known. Jehovah was the one in whom the title to their land was vested, and the usufruct was granted to families who could part with it only temporarily, it being always returned to them in the year of jubilee. In this connection it is instructive to read the Mosaic legislation with respect to land. There are those who think that our century has yet much to learn from Moses. Many, in fact, are dissatisfied with existing land laws, and think that free trade in land as now known does a vast amount of needless harm, and is a robbing of the masses for the benefit of the few. This opinion is not shared by the majority of the best thinkers on socioeconomic topics. There is, however, a widespread feeling that land laws ought to be amended more or less, without, in the main, changing the fundamental principles on which they rest.

**3. The Freedom of Capital with Respect to Loans.**—By the expression freedom of capital with respect to loans is meant the abolition of prohibitions on the receipt of interest and of restrictions on the rate of interest. The Mosaic legislation prohibited all interest; for, it must be understood, usury in older literature means not merely excessive interest, but any interest at all. Moses allowed the taking of interest from strangers, although in certain special cases it was unlawful to take it even from them. The greatest philosophers and statesmen of classical antiquity, and of the Christian era until modern times, have been opposed to the taking of interest, and the laws have reflected more or less perfectly their views. Recent opinion has favored interest as ethically justifiable. The practice of receiving interest is now so nearly universal that a man like the late John Ruskin, who habitually made loans without interest, is regarded as very peculiar, if not erratic. But the rate of interest is still generally regulated and limited by statute. In England any rate of interest is legal, but restrictions exist in nearly or quite all other countries. Such restrictions for a time were abolished in Germany, but were reëstablished on account of abuses of the freedom.

Even then, however, no fixed limit was placed on lawful interest, but the judges have been given a wide discretion to determine what is, under the circumstances of the particular case, excessive, and therefore usurious, interest.

Restrictions on the rate of interest on loans exist in most of the states and territories of the American Union, there being very few states in which no limit to the rate of interest is fixed or where penalties for usury are not provided.

**4. Freedom in the Establishment of Enterprises.**—The right of single individuals to establish enterprises on complying with general regulations is of a far more ancient date than the right of combinations of individuals to engage in industrial undertakings. These combinations of individuals usually take the form of joint-stock companies, generally called in the United States corporations. The right of free establishment of corporate enterprises on compliance with provisions of general laws is a new right, only a little more than a generation old. It did not exist in England until 1855. In some of our American states it dates from an earlier period, while in others it is of later origin. In Germany it did not exist until after the formation of the empire in 1871. Formerly a special law was required to enable a body of men to associate themselves for productive purposes, especially if the liability of the associates was limited. The older idea in the United States and elsewhere was that combinations of capital equally with combinations of labor were dangerous; but there was this difference, that special laws were passed from time to time authorizing the formation of associations of capitalists, while no such laws were ever passed in the case of laborers. Each fresh application for a charter of incorporation was presumed to be examined on its merits. If a body of men desired to form a bank, the legislature was supposed to examine into their financial and moral fitness for the enterprise, perhaps also into the need for such an enterprise, and to grant a charter only when all the conditions of the contemplated undertaking were satisfactory. Such a system of special charters never worked well,



and it has worked especially ill in more modern times. With the best will in the world—and the best will was often wanting—legislatures found that the task transcended their powers. Bribery on an immense scale was frequently resorted to, and charters were also made a part of the system of political spoils. Thus early in the present century it was considered an unwarrantable presumption for the Democrats in New York state to expect a bank charter when the Federalists were in office, and when the Democrats were in office the Federalists fared no better. It was only by stratagem that Aaron Burr could secure a bank charter when his political opponents were in power in New York. He obtained a charter for a water company, one clause of which, innocent enough at first glance, really gave the company power to engage in the banking business. The system of special charters has for the most part been abandoned, and in some parts of the industrial field is being still further limited. Conditions are severer and more far-reaching than formerly, but are general in their application.

**Exceptions to the Rule of Freedom of Establishment of Enterprises.**—Important exceptions to the modern rule must be noticed. The right to supply certain services to cities, such as light, water, and the transportation of passengers by street-car lines and elevated railways, is secured by special charter, act, or ordinance, and often an explicit monopoly is granted with what must in the nature of the case be an actual monopoly. All of the evils connected with the old general system of special charters are connected with special privileges granted to parties to engage in these enterprises, and many evils which did not exist under the old charters obtain in the new. Indeed, such charters are in one way or another connected with most of the evils of municipal politics. As free competition is impossible in the case of electric lighting, gas, water, and street-car, and elevated railway service, it has seemed to many that the only way to correct these evils is to abolish the corporations engaged in such undertakings. This can be done only by turning over these services to the municipalities themselves.

A remarkable movement in this direction has already begun, and the results thus far experienced have been beneficial. Water supply, fortunately, is nearly everywhere in the complete control of cities. Gas works are usually owned by the municipalities in Germany, and quite largely and to an increasing extent in England. The gas consumed in American cities, on the contrary, is usually supplied by private corporations. But there is every reason to expect an increase in the number of cities owning and operating gas works. Electric lighting plants are often owned by cities, and English laws look to the ultimate acquisition of all private establishments in this field. There are in the United States to-day over four hundred places that own and operate electric lighting plants, and many of them supply the lighting not only for public purposes, but for private use as well. The latter is ordinarily called commercial lighting. There are certain difficulties in the way of comparing the economic efficiency of the service as rendered by the municipalities and the service as rendered by private corporations. In recent years the matter of charging among costs the items of depreciation, interest, insurance, etc., has been insisted upon by opponents of municipalization of the electric lighting service. But making all proper allowance for these items, the balance clearly inclines to the side of municipalization. Corrected figures and careful investigation show that the municipal service in public lighting is cheaper and better than that supplied by private companies, though it is well understood that private corporations charge a higher rate for private than for public lighting. In the case of commercial lighting the advantage is even more strikingly in favor of municipal ownership. Rates charged to private consumers range from fifty to one hundred per cent lower than those exacted by private companies.

New limitations on freedom to engage in railway enterprises are now being enacted in the United States, while the freedom of enterprise in this field has in other countries been abolished for some time. In Massachusetts those who may desire to build a new railway must show that there is a public

need for the undertaking, and a similar law has been passed within the last decade by New York state. This restriction prevents a great deal of waste by doing away with the construction of parallel and other useless lines of railways, but as it adds to the value of existing railway property by removing possible rivals, it would seem only proper that the railways should be made to pay, in the form of taxes on gross revenues or otherwise, for the special privileges they enjoy in such abolition of freedom in the establishment of railway enterprises. Indeed, such a step should never be taken until public control over these enterprises has been established on the firmest basis.

*It may, perhaps, be laid down as a general rule, although a rule admitting of exceptions under the stress of conditions of time and place, that when for any class of business it becomes necessary to abandon the principle of freedom in the establishment of enterprises, this business should be entirely turned over to the government, either local, state, or federal, according to the nature of the undertaking.*

**5. Freedom of the Market.**—The expression freedom of the market means the right to buy and sell where one pleases. This is another new right and, indeed, is one which is recognized only with qualifications. We accept this principle in the United States with respect to domestic trade, but not with respect to foreign commerce, on which we lay heavy taxes for the express purpose of restricting it. But restrictions even on domestic trade were the rule rather than the exception in the last century, not only in the American states, but in Europe. Our Federal Constitution of 1789 established in the United States the principle of freedom of domestic trade, and reforms accompanying or following the French Revolution led to its general establishment elsewhere. England went a step further by abandoning the policy of restricting foreign commerce in 1846, and it was then expected by free-traders—as those are called who believe in the principle of freedom—that other nations would speedily follow her example. Those anticipations have not been realized; on the contrary, new restrictions have since then,

especially in recent years, been established, and old restrictions sharpened.

The cause has been the policy of protection, which will be discussed hereafter. Protection achieved a great triumph in the abandonment of free-trade principles and the establishment of a high tariff by Germany in 1879. The battle between the two policies has been vigorously waged in the United States during the last two decades, with the result of some modifications—including the feature of reciprocity—but without a decided victory at the hands of the people for either policy. The question still awaits settlement.

**Advantages of Competition.**—The advantages of general freedom of the market are more talked about than are the disadvantages, and they are consequently better understood. Under the system of freedom, capital and labor tend to flow to places where they are most needed, and that is generally where they are most productive. The absence of restrictions spurs the industrially gifted to activity in enterprises, since the rewards of success are enormous. Competition develops new forces and reveals new resources of economy, excellence, and variety of products. The modern man, like the modern trotter, has been developed on the race course. Everyone must be active and alert or suffer loss. As a result of competition progress in technical processes has been rapid, and the formation of new enterprises has been encouraged.

**Disadvantages of Competition.**—When we come to speak of the disadvantages of the modern system of freedom—that is to say, of competition—it at once occurs to us that the moral atmosphere of a race course, under existing conditions, is not by any means in every way a wholesome one. Competition, if unregulated, tends to force the level of economic life down to the moral standard of the worst men who can sustain themselves in the business community. Long hours, child labor, and labor of married women in stores, in factories, and even in mines underground, are all brought about in a similar manner. Cheap prices must be met by cheap prices. A tendency to reduce wages is likewise explained. On the other



hand, it must be acknowledged that when the industrial situation favors labor, competition is apt to raise wages, especially where well-managed labor combinations exist. Moreover, quality often suffers in this race for cheapness. So serious has the evil of adulteration become that many, even of those who have stood as strong advocates of noninterference, admit the necessity of preventive action in this regard. Cheap imitations, often bearing the name of the goods which they are made to resemble, are every day being offered in competition with the goods of honest producers. Thus not only the people themselves are injured as consumers, often paying high prices for things which are shoddy or even harmful to health, but even legitimate producers themselves are injured by the conscienceless competition of their rivals.

**Remedies for the Evils of Economic Freedom.**—We are not helpless in the face of those economic evils which are connected with freedom. Combinations of interested parties—workingmen in their labor organizations, capitalists in their chambers of commerce, merchants' and manufacturers' associations—can set themselves against the evils under which we suffer, some of the worst of these evils can be corrected by laws, and thus the moral level of competition can be raised. Sunday work serves as an example. Another illustration is that of laws directed against the employment in factories of children under a certain age. The agitation against adulteration serves also to illustrate the possibility of changing the level of competition without destroying the competition itself. A recent United States Senate commission to investigate food adulteration found the opinion everywhere expressed that honest competition could only be effected by government interference, which should require goods to be sold in every case for what they are. Many states have already taken up this matter of adulteration, and the result is a body of laws, generally known as pure food laws. Perhaps one of the most striking instances of dishonest competition that were revealed before the Senate committee was that in the making of champagne. It was shown that the greater part of the American product

is prepared by mechanical and chemical processes, which require but a short time, while the genuine champagne, whether American or foreign, requires a natural process of ripening, which necessitates leaving the wine in deep cellars for three or four years, and also requires an immense amount of skilled hand labor. Manufacturers of the genuine champagne did not ask that the sale of the cheaply manufactured substitute should be stopped, but urged only that the exact nature of the wine should be indicated in the label upon the bottle containing it.

Within the past few years an association known as the Consumers' League has been formed, with the object of raising the moral plane of competition. Members of the league seek to effect their object by purchasing only from those merchants or manufacturers who have given satisfactory evidence that proper sanitary and economic conditions have surrounded the production of the goods. These laws, when uniformly enforced by factory inspectors and other suitable agencies, do not destroy competition. Those who were formerly rivals are still rivals—are still left to compete with each other—but under altered conditions which apply alike to all. The moral plane or level of competition has been raised.

A great deal can be accomplished, not by resisting powerful economic currents, such as the tendency of production to concentration, but rather by guiding and directing the currents in such a manner as to secure the maximum of benefit with a minimum of injury. It has been laid down as a general rule by an English writer that experience has demonstrated two things: the advantages of freedom in trade and commerce; the necessity of restrictions in the field of labor and in behalf of labor.

**II. Ethics and the Economic Life of Nations.**—It is recognized now that there should be no contradiction between ethics and economic life, and that ethics demands a truly civilized life for each individual—demands that as far as possible each should be so supplied with economic or material goods as to satisfy all his reasonable wants and to



give opportunity for the completest development of all his faculties. It demands, further, that the production of goods should be so conducted as to minister to the advancement of society in general as well as to the advancement of the producers. In this respect, as in so many others, there has been a return, on the part of political economy, to older and sounder conceptions. We have gone back to the Greeks, notably to Plato and Aristotle, who subordinated all economic inquiries to ethical considerations. They never asked merely, "How can a nation become wealthy?" but "How can the economic institutions and arrangements of a nation be so ordered that the highest welfare of all citizens may be best promoted?" This mode of thought was common, it is scarcely too much to say, to all great writers on socio-economic and political topics until in the last century a wave of revolutionary materialism swept over the world, since which time there has been an effort so to divorce ethics and economics as practically to subordinate ethics to economics. The higher social life-spheres have been asked to minister to the lower, the feet have been exalted above the head, and in parliaments and legislatures men discuss social questions in such a way as to show that the main thing in their minds is the greatest possible wealth-creation, and that in their view humanitarian considerations—they often call them sentimentalism—ought to bend before considerations of increased production. Even to secure appropriations for public schools it is frequently necessary to show that popular enlightenment will add to the productive powers of the community, or will help to protect wealth against depredations; and anything so far removed from the lowest material considerations as art or music is in most cases considered an improper field for the fostering care of government.

**Ideals for Economic Progress.**—Happily, as has just been said, there seems to be a revival of truer conceptions, and there is a tendency to go back to the best thought of earlier periods. Several economists have presented high social ideals to which economic life should, so far as may be, minister. They all point to the same goal, which may be thus expressed: Let so-

ciety seek for itself the largest resources and the largest income, never forgetting the supreme importance of so framing the industrial mechanism as to distribute the income and the resources in a manner that will guarantee to every member, so far as possible, a material basis for the complete and harmonious development of all his faculties.

**III. Economic Life and the State.**—The third and last feature of economic life that we shall discuss is its relation to the state.

When John Stuart Mill attempted to enumerate and classify the existing functions of the modern state he found only one thing common to them all—public expediency. These are his words: “The admitted functions of government embrace a much wider field than can easily be included within the ring-fence of any restrictive definition, and . . . it is hardly possible to find any ground of justification common to them all, except the comprehensive one of general expediency.”

**Utility the Criterion of State Action.**—In the very nature of things, there is no reason why the state should do one thing rather than another except that the one is more useful than the other. If both activities are equally essential to the public welfare, there is as much reason and justice in state construction and state operation of steam railways as in state punishment of crime. There is great confusion of thought on this subject, to which it will be necessary to recur again in later pages. But it may be asked, Whence the source of the authority of the state to do anything at all? There is an ancient theory according to which it is assumed that all citizens have entered into contractual relations with one another and have thus established government. It can scarcely be necessary to discuss this fiction at present, so generally has it been discarded by thinkers. Sometimes the writing which the Pilgrim fathers signed on the *Mayflower* in 1620, establishing civil government, is adduced as an illustration of a contract origin of government. But the Pilgrim fathers then originated no new government. Indeed, the declaration began in these

words: "In the name of God, Amen. We whose names are underwritten, the loyal subjects of our dread sovereign King James." They were already living under a government—that of England—to which for over a century they and their successors professed loyal allegiance. They did not claim to establish a new sovereignty. Even had they done so—even were we to do the impossible and accept the contract theory of government as rational and historical—is a contract once signed to bind men forever? Are the living to be slaves of the dead? Great political thinkers, like John Stuart Mill of England and Bluntschli of Heidelberg, say that the validity of contracts of a governmental nature—treaties, for example—should be limited to one generation. But, if a contract be signed, whence comes the authority of the parties to sign a contract binding themselves and others to maintain and obey government? The creature thus becomes superior to the creator, and may call on the creator to lay down his life, or may even take it against his will. But it is needless to give further consideration to this absurdity. Even were contract the origin of government, how could it be shown that government would have any right to do one thing more than another except on grounds of expediency? What other indications of the nature of this absurd contract have we than the laws, including the written constitutions, where such instruments exist? But, if these give us the nature of the contract, would not then the functions of government change with changes in such laws and constitutions?

When utility is regarded as the justification of government the whole cause of controversy falls away. To justify a thing needs simply to show that it is useful. If God is the source of authority and the justification of government—its ultimate ground—then let some one show any other limitations which He has established to the functions of government than are to be found in the limitations of expediency.

**Government and Democracy.**—The modern conception of the state is that it is a coöperative community, differing from voluntary coöperative associations in its power of coercion.

The state is a coercive coöperative commonwealth. The people act through the state and its various subdivisions and minor civil divisions. "We, the people," establish through our federal government a post office. "We, the people," do other things through our government of New York state, or Wisconsin, as the case may be. "We, the people," do still other things through our agents, the municipal authorities of New York or Chicago. An older conception, inherited from European despotisms, pronounces all state action "paternalism," but those who call such a thing as the establishment of gas works by a municipality "paternalism" have never grasped the fundamental idea of modern democracy, which is that government is not something apart from us and outside of us, but we ourselves. Government activity is no longer dreaded, as the influence of ideas disseminated by French revolutionary leaders caused it to be dreaded early in this century. It is rather to be looked upon as one of the most powerful factors in promoting civilization.

**Individual Enterprise also Necessary.**—On the other hand, it is felt that the domination of any one principle in industrial life must be disastrous. Accordingly, outside of the field of governmental activity, we desire a field for the industrial activity of individuals and of voluntary combinations of individuals in partnerships, coöperative associations, joint-stock corporations, and, some will say, for combinations of corporations, as in the newest development of industrial organization, the so-called trust.

**Some of the Functions of Government.**—The purpose of the state then is, in its broadest terms, to promote the welfare of the people. To give a more detailed statement, the purpose is to establish and regulate economic institutions, such as property and inheritance; to separate public from private property; to protect persons and property; to establish the conditions of contract, and to enforce contracts under these conditions; to promote education, morals, science, and art; to guard the public health; to administer charities; to raise the level of competition by prohibiting those forms of it which



are disastrous; to bring about that management of natural monopolies which is most beneficial to the general public; and to guard certain permanent interests of the nation, such as the maintenance of a sufficient area of forests. These things private individuals cannot do at all, or cannot do as well as can the state, and it may be maintained without fear of successful contradiction that, in recognition of this, civilized nations are, to an ever-increasing degree, performing these functions.

**Forestry.**—This is not the place for an exhaustive discussion of these several functions. Treatises on political science explain the reason why many of them should be performed. The expediency of other functions has already been explained, and more will be said about them in later chapters of this work. A few words, however, may be said in this place regarding forestry. All governments are taking upon themselves the ownership and management of forests. In our own country New York state is easily the leader in this matter. Years ago that state acquired extensive areas of Adirondack forest lands, and has carefully guarded them, employing regular expert foresters in the work. Three years ago the state took a further important step by establishing a school of forestry in the Cornell University. Other states are slowly coming to adopt a similar plan of action. Bills have been brought before Congress which look to management of forests as a permanent function of our national government. Switzerland, France, and Germany are increasing the area of government forests. The reasons are very obvious. First of all, it may be said that rational forestry requires plans to be made for at least one hundred years in advance. Trees must be planted which are to be felled only at the expiration of that long period, for it requires that length of time for their full growth, and by allowing these trees to grow to full size, the amount of timber grown on a given area is at the maximum. It will be universally acknowledged that private individuals will not invest money from which they expect to receive no return for over a century. In the second place, forests ought



to be cultivated on a vast scale, on land especially adapted to forest culture. Land often good for nothing else, and certain great regions, like steep mountain sides and sources of streams, ought to be entirely covered with forests. Their climatic influence is generally believed to be important, and their leaves and undergrowth certainly prevent rainfall from rapidly rushing down mountain sides and deluging the country below. Forests prevent a waste of soil. It is said that in some cases where forests have been rashly removed from mountain sides in Baden, Germany, and in Switzerland, it will take three hundred years to repair the damage, since new soil must be slowly formed again. But private individuals will not select for forestry vast tracts of land thus properly situated. In America farmers have quite generally kept a few isolated acres in woodland, but this is not what is wanted. The land kept in trees is in many cases probably better adapted to some other use, and forests may not be needed at this particular point. A third reason exists in the fact that it requires highly trained scientific men to take care of a forest. For success in such work it is necessary to have a good secondary school education, to follow a course for several years in a forestry academy, and then to supplement all this by an apprenticeship of several years in practical work in forests. Only a state owning tens of thousands or hundreds of thousands of acres will train up and organize a properly qualified body of scientific foresters. The difference between a forest which grows wild and one which grows up under a proper system of culture is so great that the trained eye can detect the difference nearly as far as sight can reach. It is probably within the bounds of truth to say that it takes twice as much land to supply a given need when forests grow up of themselves as when a rational system of forest culture obtains. A fourth consideration is that when forests are cultivated in large tracts, as they should be, covering perhaps an entire mountain, very considerable quantities of game can be grown. Such game might easily be made to form an important element in the food of a people. Our old private system of forests in America results in an al-

most total loss of game in the settled parts of the country. Finally, although forests do not, as a rule, pay private individuals—the profits of Belgian forests, for example, do not exceed, it is said, one per cent of their selling value—they do pay the people as a whole, on account of their generally beneficial effects.

More might be said on this topic were not space too limited. Sufficient has been offered to the reader to make it manifest that such petty measures as some of our states are introducing, like tax exemption for planting a few trees or covering even a few acres with trees, will never accomplish anything of economic significance. Even “arbor days” are of little account save for their educational value; but on that account they should be encouraged.

**Public and Private Responsibilities.**—The author has tried to make it plain that in general there is no limit to the rightful activity of the State—the sovereign power—save its ability to do good. Duty, function, is coextensive with power. The state is a moral person. It may be further said in general that the fundamental principle, the basis of the economic life of modern nations, is individual responsibility. Each grown person is by our theory of government expected to feel that the welfare of himself and of his family, if he has one, rests upon himself. For the attainment of certain ends, however, he finds it advantageous to coöperate with his fellows through town, city, state, or federal government, and the performance of public duties as well as private duties is helpful in the development of the individual and of the race. The performance of the true functions of government tends to promote energy and self-reliance.

By far the greater part of economic life—most of the field of agriculture, commerce, and manufactures—is left to individuals and voluntary associations of individuals. Where mistakes have been made, and private parties have been allowed to encroach upon the functions of the state, these mistakes cannot be corrected in a day. It requires long and patient work to remedy evils of this character. On the other

hand, it is always easy for the state to give up any industry and turn it over to private parties, when it is found desirable to do so.

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**Literature.**—H. C. Adams, *Relation of the State to Industrial Action*; W. Stanley Jevons, *The State and Labor*; Ely, *Monopolies and Trusts*; Bemis, *Municipal Monopolies*; the quarterly journal called *Municipal Affairs*.

## CHAPTER VIII

## THE NATURE AND SCOPE OF POLITICAL ECONOMY.

**Derivation of the Term.**—We have now surveyed the characteristics and growth of economic society, and are in a position to inquire more carefully into the nature of the science which deals with this society; namely, political economy. The name of the science is derived from three Greek words. The word economy is derived from *οἶκος* and *νόμος*; *οἶκος* in this case meaning household goods, and *νόμος* meaning law, custom, or usage, government or regulation. The word political comes through the corresponding Greek adjective from *πόλις*, which means state as well as city; for in Greece cities were of such preponderating importance and influence in the states that the same word was used for both, just as on account of the relatively greater significance of the rural districts we have come to use the words land and country to note the entire state. Economy, then, means, etymologically, the regulation of the household, or housekeeping, and it can be used to designate the science or art of housekeeping, although for this purpose a separate word like economics would really be better; and political economy is the housekeeping of the state, or the management of the goods in or pertaining to the state, or of the goods of the citizens so far as they have any public significance, which happens whenever private economies enter into reciprocal relations. It means the economic life of the nation, and afterward the science of national housekeeping, although here again, if obstinate usage did not stand in the way, another expression, like political economics, would really be preferable. National housekeeping is likely to sound strange to English ears, but it is sanctioned by as high an authority as the late James Russell Lowell, and it seems desirable that it should become familiar. It is an expression full of

meaning, and if rightly understood contains in itself an excellent definition of political economy. It corresponds to the German word *Volkswirtschaftslehre*—*Volk*, nation, πόλις; *wirtschaft*, housekeeping, οἶκος; and *lehre*, science, νόμος.

**Political Economy Defined.**—*We may define political economy in the most general terms as the science which treats of man as a member of economic society.* Like other branches of the social sciences, it deals with social relations; but these social relations which form the subject-matter of political economy are of an economic or industrial nature. Nearly all social phenomena have their economic aspects, so that it may at first appear that there is no limitation to political economy save the bounds of the social sciences as a whole. Such is not the case, however, for the limitation of political economy is found in its peculiar standpoint. This fact may be brought out by some such definition as the following: *Political economy is the science of those social phenomena to which the wealth-getting and wealth-using activities of man give rise.* Social phenomena connected with the production and consumption of economic goods are the province of political economy. The political economist deals with religious phenomena, with the social phenomena of art and literature, with urban sanitation, and with any number of similar subjects, but always as in some way or another connected with the production and consumption of economic goods. The physician and economist will both discuss child labor and excessive hours of toil in overheated factories; but the specialty of each will be apparent in his utterances. Different classes of men who concern themselves with society do not treat of separate classes of social phenomena, but, treating of the same phenomena from various points of view, the labors of each supplement those of all the others.

A more detailed definition of political economy is on some accounts desirable. We have just seen that the economic life-sphere is closely connected with all other social life-spheres, and is influenced by them. As a matter of fact, man's life in society is a unit, and every social life-sphere conditions all



other social life-spheres. We must, therefore, in our complete definition include a recognition of man's social activities outside the economic sphere, in so far as they affect that sphere itself. We have, then, the following as our formal and complete definition of political economy: "*Political economy is the science (a) which treats of those social phenomena to which the wealth-getting and wealth-using activity of man gives rise; and (b) which deals with all other branches of his life, in so far as they affect his social activity in this respect.*"

It may be added that in modern societies a practical test of the connection of phenomena with economic considerations is the ordinary use of money expressions in measuring wants and satisfactions.

**Distinction Between Private and Political Economy.**—Political economy has a different sphere from that of domestic economy. Political economy considers social matters. It does not attempt to give directions for the acquisition of wealth by a single individual, but to inquire into the nature of those phenomena which appear when individuals in their efforts to gain a livelihood and in their employment of economic goods enter into relations with one another. In fact, it is with these relations that political economy is chiefly concerned, and it is in great measure because these intricate social relations have been of slow growth that the science of political economy came late into being. Moreover, the almost miraculous development of the complexity of such relations that has marked our own century furnishes the chief clew to an explanation of the absorbing interest which men of the present day find in the social sciences, and particularly in political economy. It seeks to explain these phenomena both by mere description and by the discovery of the causal relations connecting them; and it aims to show how the true welfare of a nation may be promoted in the acquisition and employment of economic goods. Technological treatises on agriculture, mining, manufactures, electricity, show how an individual may enrich himself. This distinction must not be misunderstood. Technical sciences and political economy

both treat of society, and both treat of individuals, but the technical sciences subordinate the social standpoint while political economy subordinates the individual standpoint. Political economy, in seeking the welfare of society, must of course aim to promote the welfare of the great mass of individuals and families in the nation and in the world, but that is something different from the welfare of a particular individual or even of the great mass of men at a given moment. Political economy looks at questions from the point of view of the general and permanent welfare.

**Political Economy Simpler than Private Economies.**—It may be well in this place to make some of these points clearer by various illustrations. It might seem a far easier thing to tell how John Smith could secure his economic welfare than how the nation of which he is only one member may become prosperous, but such is not the case. Accidental and disturbing causes and individual peculiarities make it extremely difficult to formulate general principles for an individual private economy, but these irregular elements disappear when we observe a large mass of individual economies. Mortality serves as a good illustration of this difference in the possibility of prediction in the case of the individual as compared with the case of a large group of individuals. No one can say when John Smith will die. The chance element is so pronounced as to make prediction impossible. But when we are called upon to make calculations upon mortality among several millions of people at a given period in a given country it becomes a comparatively easy matter. Individual irregularities become social regularities, and calculations for great masses of facts of this kind can be made with so great a degree of accuracy that vast business transactions like those connected with insurance can with safety be based upon them. In a nation we can count upon a regularly recurring number of inundations, droughts, and grasshopper plagues; of accidents to the persons of inhabitants, involving a diminution of labor power; of disease and death; even of theft, robbery, and other forms of wickedness, vice, and pauperism. We make allow-

ances for all these wealth-annihilating factors, and consequently they do not disturb our generalizations. Given a country like the United States, with a fruitful soil and all other desirable physical properties; a population on the whole thrifty, industrious, temperate, moral, intelligent, and enterprising; a tolerable government, whose laws are in the main obeyed—and we know to a certainty that the country, as a whole, must in time become very wealthy. In its economic life, moreover, things as they occur at the same time—that is to say, phenomena in their coexistence—are observed to fall into great classes which may be described and explained; and things as they occur one after the other—or phenomena in their succession or sequence—are likewise observed to occur in some kind of regular order, which also may be described and explained.

Let us suppose that we seek to know how John Smith may acquire wealth. He follows sound principles, but disease and death at an early stage of his career destroy all his property. It is not even necessary to suppose so extreme a case. The land of the country is on the whole fertile, but in some way or another, possibly by inheritance, John Smith may be the owner of a piece of poor land on which he is obliged to struggle for a bare subsistence. His farm may even be fertile, but an overflow of a river, such as has not been known for a century, sweeps away his cattle, buildings, and the year's produce, and cripples him industrially in so serious a manner that he never recovers from it. Instances like the following have fallen under the author's observation. John Smith is a clever artisan, receives good wages, accumulates a small property, which he is induced by an unscrupulous man to exchange for worthless Western lands. He returns to work for his old employers and is compelled to begin life over again penniless. Others may, it is true, learn from his experience to be more suspicious of plausible men with Western lands, but John Smith has lost his accumulations. To repeat an expression which we have had occasion to use before, "in the long run," other John Smiths may be made wary by his ex-

ample, but our John Smith has only "a short run," and must suffer for that reason. These illustrations make clear the statement that it is far easier to say how a nation may become prosperous than to prescribe how a particular concrete individual may secure economic well-being.

**Private Welfare not Identical with Public Welfare.**—Again, we have said that political economy seeks the welfare of society. The prosperity of individuals may be secured at the expense of society, for it by no means follows, as superficial writers have assumed, that he who gains wealth has added that amount of wealth to the total wealth of the country or of the world. Lotteries serve as one of the best illustrations of this fact. They are one of the most disastrous institutions, both as regards the economic welfare and the morals of a community, that can afflict society. Large numbers in the industrial community, especially among the poorer classes, may be turned away from safe and remunerative investment of their small earnings to a feverish pursuit of chance gain. In such cases society as a whole loses, but proprietors of lotteries have been known to gain large fortunes.

When American cities have given away valuable franchises for street-car lines, individuals have gained, but the people as a whole have lost. Baltimore street-car companies pay nine dollars out of every hundred they collect for the maintenance of public parks, in addition to state and city taxes. Unscrupulous politicians, for reasons best known to themselves, but not difficult to divine, have desired to relieve these street-car companies of this very proper although inadequate payment for valuable privileges enjoyed. Such a gift to the companies, if made, would add to the wealth of individuals, but would injure the people of Baltimore as a whole.

Other countries, like France and Austria, have limited all charters for railways to periods of less than one hundred years, and have added the further condition that the entire property shall, at the expiration of the period, revert, without compensation, to the people in their organic capacity; that is to say, to the state. Our general principle of unlimited charters

has enriched enormously a few individuals, but the rest of the country is correspondingly poorer.

**Political Economy Regards Permanent Interests.**—The political economist must have regard to permanent interests. He may call upon the present generation to make a sacrifice for future generations, as did the city of Heidelberg when it passed over to the system of "high forest-culture;" that is to say, when it decided to allow a large part of the extensive forests which it owns to stand until the trees had attained their full size, and that means, in some cases, one hundred twenty years. As has been explained, that policy is best for the permanent interests of the city and nation, but the city in adopting it put aside all prospect of financial return for several generations.

**Political Economy both a Static and a Dynamic Science.**—Political economy embraces both the statics and dynamics of society. The one treats of the interrelations of existing economic phenomena, including their causal forces, and the other embraces a discussion of the progressive movements of economic society. The one considers existing society as it is; the other inquires how it has become what it is and what is the present tendency of its evolution. Statics treats of forces in a state of equilibrium; dynamics deals with changes and the law of changes, and with what John Stuart Mill calls their ultimate tendencies.

It may be remarked in this place that one of the chief errors of the uninstructed, in the past as well as at the present, consists in the failure to regard political economy as a dynamic science at all; and this has led to a false and dangerous view of society. It induces men to try to stop the growth of society—which is about as wise a process as to seal tightly the cover of a boiler of boiling water, and to try to prevent thereby the expansion of steam. Change we must have, the only question is, What shall be the nature of the change? Growth can be guided and directed by intelligence, or by what Professor Lester F. Ward, in his *Dynamic Sociology*, calls teleological social action.



**Importance of Social Ideals in the Study of Political Economy.**—This naturally leads to a further remark about the nature of economic opinions. At the outset of any earnest study of political economy we should make up our minds as to what we really desire for society. And in this respect let us be honest with ourselves. Do we regard all human beings as brothers, and have we a sincere longing for the welfare of all? Do we think that the earth and all the riches of art, science, literature, and industry are for all, to be enjoyed by all, so far as is practicable, in proportion to their real needs? Do we, in short, take the ethical view of political economy. Or do we, on the contrary, perhaps without a full consciousness of the fact, hold that some are born merely to subserve the gain of others? Do we think that only some of us, and not all of us, have talents which we ought to improve; that is, to develop in the most complete manner possible all faculties, physical, mental, moral, spiritual? Are we striving to protect ourselves, our friends, or our class in special privileges? As political economy has to do with what we desire—that is, as it is teleological—the one aim or the other will be felt in all economic discussions, and particularly in so far as they relate to practical measures. It is for this reason that political economists in all countries are necessarily divided into two more or less antagonistic groups, differing chiefly in practical aims, and—as that part of the subject is more concerned with such aims—in the dynamics of political economy.

**Ethical Aims an Essential Part of Economic Activity.**—Political economy, then, distinctly includes within its province an aim. It does not tell us merely how things are, but also how they ought to be. Economists deal with human activities, and these activities must have a purpose. A purpose is not something accidental, but a true essential part of the activity. We may therefore compare various purposes at the present time and pronounce some praiseworthy and others reprehensible. We may speak of actual purposes and of desirable purposes. The development of economic life brings

out clearly the significance of ethical aims in industrial society. What exists now as a mere matter of course was once only an ideal for the future, or, to use more technical language, the "Is" includes what was once the "Ought-to-be." The acquisition of material goods by robbery was for ages held to be legitimate, and the abolition of plunder as a source of individual gain could once, among savages, have been only an ideal. The acquisition of material goods by force of arms has during the greater part of the world's history been held more honorable than by honest toil, and in the general peaceful pursuit of economic well-being we have in civilized nations only recently reached an ethical goal that has stirred the hope of the best among men for many generations. Until within forty years we have had slavery as a part of the industrial life of the United States, and only in the present generation have we realized in its abolition an ethical goal in our economic life. Further illustrations will on reflection occur to the reader. Ethical purposes for the future exist now as they have always existed, and they will mold our economic life.

Professor Franklin H. Giddings arrives at the same conclusion from a somewhat different starting-point. In his *Sociology and Political Economy* he explains that political economists deal with the actual, but that the actual contains the social ideal, since in striving for the realization of a social ideal we strive to make that general which already exists as something exceptional. Living men go before us as luminaries to show us the way. They are our ideal.

The "Is" in a measure embraces the future "Ought." This in itself answers the question whether political economists should deal merely with what is, or also with what ought to be. The two cannot be entirely separated. Moreover, merely to know what *is* in all its bearings is itself often for us to know what ought to be, as in the case of the evils of child labor. Another reason for the same conclusion is this: we want to know what ought to be and how it can be, and who can tell us so well as he who has studied what exists and the processes by

which it has come to exist? There is no separate science of the economic "ought," and it certainly does not at present seem desirable to separate it as something distinct from political economy.

**"Is Political Economy a Science?"**—Thus far no attention has been paid to the question so frequently asked, "Is political economy a science?" Science means systematized knowledge with regard to a body of related phenomena. It is ordered knowledge with definite bounds, taken out of the great sea of knowledge because it pertains to groups of facts conceived as forming a whole, and as therefore more closely connected with one another than with other groups of facts. Science is a branch of learning. It has been said by some that a body of knowledge is a science only when it carries with it the power of prediction. "*Voir pour prévoir*," wrote the great French positivist, Auguste Comte. But there can scarcely be such a thing as any branch of learning worthy of a name and of the attention of men which does not carry with it more or less power of prediction. How much it is impossible to tell until the science is complete and finished. Sciences differ in this respect as in others; some are still very imperfect, while others are in a condition approximating perfection.

In England and America the word science is frequently heard in a use which is itself a sad commentary on a too common tendency in both nations. You will often hear a school-girl say, "I am studying science," when she means some branch of natural science. It may not show that we have given too much attention to physical sciences, but it does clearly prove that we have unduly neglected mental and social sciences of all kinds. In the minds of some this use of the word springs from that materialistic view of the world which refuses to admit the possibility of positive knowledge about things which cannot be seen, handled, and weighed. Why political economy is less worthy than biology to be called a science is hard to understand, unless it be for the reason that our science is less advanced toward completion.

**Three Classes of Definitions.**—The various definitions which different writers have given of political economy fall naturally into three main classes, and show clearly that three conceptions regarding the nature of the science have prevailed. To be sure, writers frequently fail in their definitions to describe accurately their conceptions of the nature of political economy, but they may, nevertheless, be divided into classes according to their fundamental ideas respecting the scope and purpose of the science, whether they have accurately expressed these in their definitions or not.

Writers of the first class regard political economy as a science which has to do with external valuable things or economic goods—that is, with wealth, as that word is used by economists; writers of the second class regard the science as having to do with economic goods in their relation to man; while writers of the third class regard it as dealing with man in his relation to economic goods. Note the logical evolution in the transition from one to another of these three conceptions. Economic goods are first made the primary thing, and are treated almost as if their production were an independent process apart from the will of man, one extreme writer going so far as to say that the laws governing the production of wealth would be just what they are if man did not exist. The social relations involved in the production and consumption of economic goods are in the second conception of the science considered more carefully, and finally the original process is reversed, and it is distinctly asserted, as by Professor Roscher, that “the starting-point as well as the object-point of our science is man.”

The definition of political economy found in Mrs. Fawcett’s little *Political Economy* may be taken as a fair presentation of the first class of conceptions. It is as follows: “Political economy is the science which investigates the nature of wealth and the laws which govern its production, exchange, and distribution.”

The definition of political economy to be found in John Stuart Mill’s treatise may be taken as a tolerably accurate

presentation of the second class of conceptions. "Writers on political economy," says Mill, "profess to teach or investigate the nature of wealth and the laws of its production and distribution, including directly or remotely the operation of all the causes by which the condition of mankind or of any society of human beings in respect to this universal object of human desire is made prosperous or the reverse." In such a definition as this it will be noticed that social relations are dragged in, as it were, through a back door. The definition recognizes that political economy must concern itself with social considerations, but it does not at once place them in the foreground as the main thing with which we are to deal. Mill's position is perhaps brought out still more clearly in the full title of his work, which is *Principles of Political Economy, with Some of their Applications to Social Philosophy*. Social philosophy is here evidently viewed as something outside of political economy rather than as a larger whole of which political economy is only a part.

Professor Henry C. Adams, of the University of Michigan, in the second edition of his *Outlines of Lectures upon Political Economy*, offers a statement about the science which may be placed among definitions of political economy as it is understood by those who hold the third class of conceptions. It should be said, however, that he himself does not call his statement a definition. It is as follows: "Political economy treats of industrial society. Its purpose as an analytic science is to explain the industrial actions of men. Its purpose as a constructive science is to discover a scientific and a rational basis for the formation and government of industrial society."

While not by any means all of the numerous definitions of political economy are so worded as to place them clearly in any one of these three classes, and while not all political economists are true to the conception expressed in their own definition, yet the economists themselves may be arranged, in a rough sort of way at least, under one or another of the classes corresponding to the conceptions, and may thus be divided



into three groups, although, as has just been implied, there is more or less shifting of standpoint and wavering of conception, and although certain economists stand near the boundary line of two conceptions.

**The Growth of Political Economy.**—The order in which the definitions have been given shows the evolution of our science. The evolution is not merely logical, but also, in a rough way, historical. It has grown from the first conception to the second, and then from the second to the third, and with this growth the character of political economy itself has somewhat changed. The words political economy do not now mean precisely what they once did. This evolution of economic science has not been strictly a chronological one. The most we can say is that in the main the chronological movement has corresponded with the logical development of the science. Political economists did not adopt definitions of the first class, then of the second, and finally of the third. The case may be stated more correctly in this way: Beginning with this century these various conceptions or ideals of political economy have been engaged in a contest. At first definitions of the first class embodied the prevailing conception, then definitions of the second class, and now definitions of the third class. But there has always been some one of prominence to challenge the prevailing conception. Thus, early in this century, Sismondi, the Swiss economist, defined political economy as “the science of human happiness,” and Malthus, his friend, the distinguished English economist, subordinated wealth to the welfare of man, opposing those who treated public questions merely from the standpoint of pounds, shillings, and pence. He regarded political economy as the science of wealth in its relations to man, emphasizing strongly the latter part of the conception. While the prevailing conception of political economy at the present time is presented fairly well in the definitions of Professor Adams and the author, it is still contested by those who adhere to definitions of the first class.

**Political Economy and a Natural Beneficent Order.**—The

first conception of political economy may be traced back to certain French writers of the second half of the eighteenth century called the Physiocrats, who are usually regarded as the founders of the science, because they were the first to try to treat national economic life in its entirety in a rounded-out, systematic manner. Their fundamental thought is closely connected with ideas concerning a beneficent external order of nature which dominated the political philosophy of the time of the French Revolution. Nature was regarded as a power outside of man, which had drawn up, as it were, a code for the entire conduct of the individual and social life of man. Nature was looked upon as wholly good. All the evil in the world was traceable to man, who, although a product of nature, and good in his essence, yet somehow had managed to act contrary to his being and to otherwise universal law, and had produced all sorts of evil institutions. There was then a constant cry, most loudly uttered by Jean Jacques Rousseau, "Back to nature." They held government responsible for most of the sufferings of humanity because, according to their unhistorical view, it was an artificial product of man's contriving, and hence some wished to abolish government altogether, while others advocated the reduction of its functions to a minimum, and gave as the watchword, "*Laissez-faire*,"—that is, "let alone, do not interfere with this beneficent order of nature." Space is too limited to permit the author in this place to trace the theory of natural law back through mediæval writers to Roman jurisprudence and thence to Greek philosophy, nor can it here be shown how full of contradictions and absurdities it was, but it will readily be understood how it led to the first conception of political economy. Nature had established laws external to man for the production, distribution, and consumption of economic goods, and it only remained for man to discover these laws, and to conform to them in all his actions. Gradually, however, it became more and more apparent to thinkers that the conception of economic goods, or, to employ the more usual term, wealth, is itself a subjective idea; that, although material things may exist apart

from the needs and desires of man, wealth, properly speaking, can have no such independent existence, and that the will of man is a main factor in all economic life. It was seen, moreover, that progress consists not in blind subjection to external natural laws, but in a conquest and subjugation of wild nature. The conception of political economy has accordingly been modified until finally man is made the beginning and end of all inquiries, and nature is regarded as his servant.

**Different Conceptions of Man and External Nature.**—Political economy occupies a middle ground between natural sciences and mental sciences. It deals with man, but with man in relation to external nature, which furnishes him with material for goods to supply his wants. It must presuppose the existence of natural physical laws that are not at all the product of human volition. Some writers have been inclined to overlook the part which external nature plays in economic life, and consequently to go to an extreme in their conceptions of political economy. Starting with definitions which overlook man, we finally come to definitions which overlook the physical universe outside of man. Thus Professor de Laveleye, in his *Political Economy*, offers this definition: "Political economy is the science which determines what laws men ought to adopt in order that they may, with the least possible exertion, procure the greatest abundance of things useful for the satisfaction of their wants, may distribute them justly, and consume them rationally." It must in fairness be explained, however, that Professor de Laveleye himself is not true to his definition, for he discusses many things which do not by any means exclusively pertain to legislation.

**Main Parts of Political Economy.**—Political economy has become so large a science that it has been found desirable to divide it into parts, each of which is often treated in separate works or volumes of the same work. Sometimes each one of the great parts is treated almost as a separate science. With the evolution of political economy it is beginning to assume the appearance of a group of sciences. The connection among

the main parts of the entire subject has so far been well preserved, and their unity in the larger whole rarely escapes the consciousness of the student.

The Germans usually divide their treatises on political economy into three main parts. The first is concerned with general principles. This should properly include an outline sketch of the entire subject, the parts of which may be further elaborated later. The second part deals with the detailed practical application of general principles, as in the discussion of forests, canals, railways, banks, and the sphere of the state with reference to these economic factors. The third part treats of finance; the collection and administration and expenditure of public revenues, including a discussion of the various sources of the revenue, as productive property, taxes, and loans, and entering into an examination of public debts with reference to their origin, growth, management, and extinction.

American and English economists have not commonly elaborated their treatises so fully as have the Germans. However, in recent years they have practically approximated the German custom. We find in the English language general treatises giving an outline and more or less complete treatment of the entire subject and separate treatises on public finance, and under entirely separate titles we have special and detailed treatment of peculiarly interesting or immediately practical problems. It will readily be seen that a topic like population can be treated in an independent work, and it has been so treated by Malthus, a great English economist. Land, and the price paid for its use, called rent, may also be treated in an independent work, and has been so treated by an American economist, the late President Francis A. Walker, in a book called *Land and Its Rent*. Various English and American writers have given us separate books on the subject of money and banking. Professor J. Laurence Laughlin, of the University of Chicago, has written a separate treatise on *The History of Bimetallism*; Professor Charles J. Bullock, of Williams College, has recently published a similar work, en-



titled *Essays in the Monetary History of the United States*; and Professor F. W. Taussig, of Harvard University, has written a work on the *Tariff History of the United States*.

The general treatises on political economy are commonly divided into four parts or books, discussing respectively: Production, or the creation of utilities; Distribution, or the determination of the ultimate share which each person receives of what is produced, or, as we might perhaps say with a tolerable degree of exactness, the amount of income of the various members of industrial society; Exchange, or, better, the Transfers of Goods, sometimes also called the Circulation of Goods; Consumption of Goods. The part on consumption, though containing the reason for all economic activity, is sometimes omitted.

If we look upon this division of political economy into parts as perpendicular, we could speak of a division of the science into economic dynamics and economic statics as a horizontal division. It cuts across all the others. John Stuart Mill, who gives too little attention to economic dynamics in general, has one book on this subject in his political economy. It is entitled, *Influence of the Progress of Society on Production and Distribution*. Mill has no book on consumption, but his fifth book, entitled *Of the Influence of Government*, contains a brief treatment of the subject of finance.

The present work follows a plan which is in some respects a new one, and particularly in the distribution of space among the various topics discussed. The author aims to give his readers an insight into the real significance of political economy and a general view of the entire ground, whereby, it is hoped, many will be led to continue further their economic studies. A large part of the work is, of design, descriptive.

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**Literature.**—John Stuart Mill, *Logic*, Book VI. Auguste Comte, *Positive Philosophy*, translated by Martineau. Franklin H. Giddings, *Sociology and Political Economy*, in publications of the American Economic Association, vol. iii.



## CHAPTER IX

## METHODS IN POLITICAL ECONOMY

METHODS whereby knowledge is acquired are properly discussed in logic, but since sufficient familiarity with logic cannot be assumed in such a work as the present, a short chapter must be devoted to a discussion of the subject in its bearing on the study of economic truth.

Logicians have usually spoken of all methods for the acquisition of knowledge as either deductive or inductive, but recently a third method, the statistical, has been assigned an equal rank, and it has even been claimed that the statistical method is the one peculiarly adapted to the study of all the social sciences.

**The Deductive Method** is the method of reasoning from the general to the particular. The most familiar illustration is this: All men are mortal; John is a man; therefore, John is mortal. We begin with a statement respecting a class, we see that a particular individual belongs to this class, and then we assert that what is true of the class is true of the individual. This is self-evident. This kind of reasoning is often called in colloquial English "putting two and two together."

**Inductive Method.**—Now inductive reasoning reverses the process. It finds that certain things are true of a great number of individuals which by observation are declared to be each a fair type of a class, and then what is true of the individuals is said to be true of the entire class. It is seen that John dies, or is mortal. Observation shows that James, Richard, Robert, and others likewise die. Observation as reported in history tells us of no man who has not died. We say then that John is a typical man, and we conclude that all men are mortal. These two methods manifestly supplement each other.

**Statistical Method.**—But when we mass together large numbers of facts about the life of man as a member of society—in other words, social phenomena—we observe certain regularities among them. No one of them can be taken as a type, yet we can arrange and group them and gather information about them. Suicides serve as an excellent illustration. What could appear to be less regular than the means adopted by human beings to put an end to their own lives? Yet when we study a large number of cases, say thousands, we find that a certain proportion in each hundred will hang themselves, another proportion will poison themselves, and another proportion will drown themselves. Likewise we discover a regularly recurring proportion between men and women thus ending their life. We find that a certain percentage will choose a rainy day, another percentage a clear day.

Mortality in general, as has been explained in another connection, also serves as an excellent illustration. It is not easy to tell whether Robert, aged forty, will die during the next twelve months, but it is easy to tell approximately how many men among a hundred thousand aged forty in a particular country will die. The observation of these regularities in large masses of facts, and the acquisition of knowledge thereby, is called the use of the statistical method.

**Deductive School.**—Economists during the first half of this century generally made use of what they called the deductive method. They started with a few general propositions afforded them by their own consciousness or by observation of familiar facts, or by other sciences, and sought to explain thereby the economic life of man. One of these general propositions is the assumption that the main motive, almost the exclusive motive, and the only one to be taken into account in reasoning respecting economic life, is self-interest. Manifestly, if we can assume that men are always actuated by self-interest, it is only necessary to find out where self-interest will lead to predict the course which they will pursue. Undoubtedly this throws a flood of light on eco-

conomic phenomena and explains many of them. A second general proposition found in the writings of the older deductive economists is this: population tends to increase faster than the means of subsistence. A third proposition asserts that capital increases the productivity of labor, and that further accumulations of capital may be made which will increase indefinitely the amount of economic goods annually produced. A fourth proposition asserts what is called the "law of diminishing returns;" which means that after a certain amount of labor and capital—that is, a certain amount of economic energy—has been applied to agricultural land it does not pay to apply more, because the return will not be in proportion to the increased outlay. Thus, in a certain part of the world, it may pay to hoe corn three times, but not four or five times. The economist who formulated these propositions said that political economy is not eager to gather facts, because these general propositions explain all facts of economic society.

The deductive method is also called the *a priori* method, and economic reasoning based chiefly on such a method is often called *a priori* political economy.

**The Historical School.**—About the middle of this century there arose in Germany a stronger and more vigorous protest against the deductive method than had ever been made before. Isolated voices had been raised against it previously. An English economist, the Rev. Richard Jones, had, about 1830, claimed that we could not out of our own inner consciousness with the aid of a few general propositions explain the complex phenomena of economic society, and had said that if we would know how men live, we must "look and see." Other economists had given utterance to similar opinions, but they had not been heard. Three gifted men in Germany, Karl Knies, Wilhelm Roscher, and Bruno Hildebrand, all university professors, coming forward with what they called the *historical method*, quickly made an impression in their own country, and their influence gradually spread throughout the civilized world.

We ought rather to speak of an *historical school* than of an historical method. The term is used in a broad sense. It is better than inductive, because it includes much more than induction. The name historical is not accurate, but is taken from one prominent characteristic of the school. Men of the historical school, believing in observation, regarded the past experience of man in history as a valuable source of information. Men had, they claimed, been conducting experiments in their economic life during their entire past existence on this earth, and had recorded the results of their experiments with more or less accuracy. History was considered therefore to be a proper field for observation. At the same time it was never claimed that history alone was sufficient to enable us to construct a science of political economy. In their view other nations were to be studied in their present life and in their past, and hence we find the expression comparative method also applied to the work of this school. Generalization and induction from large masses of related facts was also advocated, and we accordingly encounter the term statistical method as applicable to their work.

In some cases the historical school went to an extreme in decrying the possibilities of deduction as a method in economic study. After laying a broad basis for deduction, they still denied the utility of that method, and in some cases continued an uninterrupted search for economic facts, without attempting to correlate this body of truth, or to generalize sufficiently from it. The result was that a reaction occurred, which found its chief exponents in a group of Austrian economists, commonly called the "Austrians," who have urged the importance of the deductive method, and who have constructed a political economy which is in many features the dominant political economy of to-day. But while they have insisted upon the use of the deductive method, and while they have consistently and brilliantly used that method in their work, they have agreed with the historical school as to the importance of establishing and verifying the fundamental premises of their deductions by thorough and painstaking in-

ductions from the history of man's economic life and from the facts of man's industrial life to-day.

For years there was a sharp antagonism among the advocates of the different methods, many contending for the sufficiency of the older deduction as exemplified by the English economists, others insisting upon the sufficiency and necessity of the historical method, while a third group were working for acceptance of the "newer deductive method." From the strife of method much interest and advantage was gained. Harmony has followed the older opposition. Now, although there are still occasional strong partisans of one or another of the methods which have been explained, most economists are working quietly on, recognizing that for some problems one method will be more advantageous, while for other problems another method may have to be adopted. Again, the prevailing use of any method by one author is in many cases determined by the temperament of that author. One great American economist is so brilliant in his use of deduction that it would be a loss to the science if he were obliged to enter upon the task of gathering the wide range of data which underlie his reasoning. Others, and particularly the younger men in the field, are fitted for the task of wide and deep research, while the science will benefit if they delay to a time of riper intellectual power the task of deductive construction from their materials. The bitterness of the old strife has given place to a shoulder-to-shoulder struggle by all means and methods for a true advancement of the science.

It may be said, then, that modern political economy uses these methods: deduction, induction, observation and description, statistics. Deduction and induction have already been discussed, and examples will be afforded by the subsequent chapters in this book. *Deduction is and should be used, and especially for certain classes of phenomena where other methods fail.* International trade may be cited as an example. In considering this question it is difficult to separate and interpret the facts. England has prospered, let us admit, under free trade. Was free trade the cause? Cer-



tainly other forces have been at work tending to make England a wealthy country. The United States, it is equally true, has prospered under protection. Was protection the cause? How difficult to answer! We must seek aid in such a case from known general principles. On the other hand, in considering economic problems, so many premises are possible, and so many combinations of premises, that deduction is likely to mislead. When this method is used conclusions should always be carefully tested by actual experience, and we must be ready not merely to test conclusions, but even at the same time to draw conclusions from facts in cases suitable for deduction, because human passion has such play in deductive processes. Deduction could not convince the hard hearts of English Gradgrinds that factory legislation was a good thing, but facts as hard as their hard hearts were arguments which they knew not how to resist.

**Observation and Description** have a large place in political economy. Logical processes have too exclusively dominated a great deal of economic discussion. More plain, simple description is needed. Labor organizations, coöperation, and profit-sharing experiments, the working of systems of taxation, are to be observed and described. Institutions and customs are to be observed and described. The effect of desires—of consumption—on production also needs careful observation and description. Nothing is so little cultivated in general as the habit of observation of economic and social phenomena. Text-books, written by those whose little learning is a dangerous thing, have aroused prejudices and have provided men with a set of shibboleths, terms, and phrases by which they decide all practical problems of statesmanship in an offhand way, much more easily than by patient inquiry. Words have been taken for knowledge, and progress has thus been obstructed. If readers of this book will keep their eyes open, their minds and hearts accessible to new truth, and will consecrate themselves to truth, they will advance rapidly in economic knowledge. A brief outline or sketch of a science does positive harm when it leaves its readers with the im-

pression that they are well informed. The aim of this book is not to leave readers with a satisfied feeling, but to awaken curiosity and to stimulate them to further study; in particular, to arouse in them habits of careful and accurate observation of the economic life of all classes of men, hours of labor, wages paid, housing of the laboring class and other classes, various taxes paid in their own town, the relation of local taxes to state taxes, the methods of granting franchises to corporations for the use of the streets, comparisons between the cost of electric lighting under municipal and private ownership respectively, etc., etc.

**Analysis.**—Analysis is to be regarded as an aid to other methods rather than as an independent method. It consists in separation of complex phenomena into parts so that they can be better understood. Economic knowledge is impossible without careful analysis. One of the most frequent causes of error is a lack of analysis, or, as is more commonly said, a failure to discriminate. Monopolies serve as an illustration of this danger. Some are good, others bad; some are good under certain conditions and bad under others; some are brought about of necessity by the inherent properties of certain kinds of business; others are social products which can be abolished. Nevertheless, monopolies are usually judged “in a lump.” They are praised or blamed indiscriminately, and legislators too often desire to treat them all alike. Analysis enables us to separate them and arrange them in groups so that each may be discussed and treated in an appropriate manner.

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**Literature.**—Mayo-Smith, *Statistics and Sociology* and *Statistics and Economics*; Pearson, *Grammar of Science*; Meitzen, *History, Theory, and Technique of Statistics*, translated by Professor Falkner; Farr, *English Vital Statistics*, 2d edition. The monograph on “Statistik” which Chancellor von Rümelin contributed to Schönberg’s *Handbuch der Politischen Oekonomie* should also be consulted by those who read German.

## CHAPTER X

## LAWS IN POLITICAL ECONOMY

IN attempting to study the laws of political economy we should begin with a clear notion of the meaning of the term itself. Law is of so many kinds, and the various conceptions lend themselves to confusion so easily, that it is especially necessary to be on our guard. Very often when we hear of a law in the natural sciences we unconsciously read into the word a thought borrowed from the concept of law as a civil statute. Now laws which are enacted by government are mandates. They say that such and such things must be done or must not be done, and that if a command or a prohibition is disregarded, punishment will follow. We have only to think clearly for a moment to see that the laws of the physical universe are very different from these statutory laws. In the one case there is a command, in the other a statement that under certain conditions some certain thing will happen; in the one case we know that violation is frequent, while in the other there can be no violation. If there be an exception to a general rule, that simply means that the law itself is not a perfect or universal one; for if the law be a perfect one, it will represent absolute universality, and will therefore be without an exception.

Social laws, or laws in the social sciences, are simply statements that a certain course of action may be looked for in society when certain conditions are present, and if these laws relate to human actions in which the strength of the moving impulses chiefly at work can be measured in terms of money, we call them by the special name economic laws. They are not laws, therefore, in the sense of mandates, nor are they laws in the sense of universal statements of certainty, but only more or less general assertions of the probability of certain social occurrences under a given set of conditions.

**“Natural Laws.”**—Laws in the economic world have been much discussed, and there has been a parade of “natural laws” in economic life which we have been called upon to admire and to obey. Now the word natural is used in at least two senses. If nature includes man and everything in the universe, it is mere tautology to say that everything which happens is natural. But nature is generally conceived as including everything except man’s mind and its voluntary activity as manifested in his acts. By natural laws are meant laws precisely like those of the external physical universe. If this sense of the term be employed, it may be said that there are no natural laws in political economy. Why should there be? Political economy deals with a different order of facts than those which concern the natural sciences, and its laws are of a different kind. The marvelous progress of the natural sciences, combined with what may be called a wave of materialism which in recent years has passed over us, has led to an undue exaltation of natural laws, and people come forward triumphantly with the claim that they can demonstrate the existence of natural laws in the business world or even in the spiritual world. All that they accomplish, however, is to show analogies between certain orders of facts. It is no disparagement either to organic society or to the religious life to admit frankly that they are not governed by natural laws—that is, by the laws of the external physical world.

**“Laissez-Faire.”**—What are these natural laws of economic society? Let some one enumerate them. When this has been attempted no progress has been made beyond a few truisms and self-evident propositions which political economy never established. One writer speaks of the maxim “*laissez-faire*,” the theory of noninterference and passivity of government, as natural law. “It carries with it,” says this writer, “the revelation of our science, and announces the presence of those natural laws which it is the mission of the science to study. At the same time this maxim is the first fruit of this revelation.” Unfortunately for the theory of natural laws, the wisdom of this maxim, *laissez-faire*, has generally

been disproved both by science and practice in all civilized lands. It is thought that it performed good service at the time it became powerful, but that it is no longer suited to the needs of the modern world. Imagine physicists renouncing the law of the attraction of gravitation as no longer adapted to our world!

**Self-Interest.**—But have not men always been actuated by self-interest? Were not the Medes and Persians thousands of years ago, like the Americans of to-day, moved by a desire to advance their own interests? Is there not here at least a natural law; at any rate—and this is usually meant—a law which acts with the regularity and certainty of the physical universe? By no means. Self-interest is not a constant force which can be accurately measured. It leads one man to cheat, another to steal, a third to underhand business practices which just keep within the law. It prompts a fourth to deal honestly, to describe his wares as they are, and to sell them at a “fair price,” and at the same price to all. Self-interest induces some men to smuggle, but it equally induces others not to smuggle. We observe the proportion between smugglers and nonsmugglers. Now let us change the laws, reducing or raising taxes on imported commodities. Lo! the proportion between smugglers and nonsmugglers has changed. Some adulterate their goods; others do not; some manufacturers do all that they can to secure the passage of laws regulating and restricting child labor; other manufacturers oppose the passage of these laws and break them after they have come into force. Then we hear about real self-interest and apparent self-interest. Doubtless there is such a difference, but must not a man be moved by different motives than self-interest to perceive his real self-interest? Some claim that self-interest may be compared to the attraction of gravitation. They say that other forces act counter to the attraction of gravitation, as the friction of the air or the force of the wind, but that all these forces do act, and that the motion which takes place is a result of their combined action—a resultant. This is not the case with human motives. We



choose, and one motive displaces another. Again, back of motives there are laws and institutions on which motives act. How will self-interest act when custom fixes prices? How when competition fixes prices?

**Social Laws.**—It must be apparent that we have to do here with laws different from those which govern the physical universe. Our laws may be called relative laws, or historical laws, or, if one pleases, social laws. They are the result of the peculiar constitution of our politico-economic life, which is made what it is by the action of human desires and passions and efforts upon the physical universe governed by its own laws. The will of man is a main factor in all politico-economic phenomena, and this will must be regarded by students of society as itself a creative energy, introducing new forces. We can observe certain regularities and tendencies in all social phenomena. When statistics began to make rapid strides these regularities and tendencies were called laws. When it was observed that out of ten thousand people a certain definite number every year were married, that another definite number procured divorces, that still a different but definite number committed crimes, and that a precise number, which could be told in advance, took their lives—when, in short, all social phenomena appeared to recur regularly year after year—a feeling akin to fatalism arose, and some statisticians were inclined to look upon these regularities as laws of the external world beyond the control of man. Further inquiry revealed differences in these proportions between different lands, and showed further that differences could be brought about by the action of man. The phenomena of intemperance have in parts of England and other countries been definitely altered by agitation of various kinds for reform. Still more striking has been the decrease in mortality in England and America and in some countries of continental Europe, a decrease which is due to the attention given to statistics in the modern world as well as to the wonderful advance in medical and surgical skill and in sanitary science. For statistical reports have shown places where mortality was alarm-

ingly great, and has pointed unerringly, in very many instances, to the source and the cause of the evil.

We have at times to do with powerful tendencies in economic life, and these for a period appear to resemble laws of the physical universe, so without exception is the occurrence of the course of action which they predicate or predict. The tendency of certain pursuits, like gas service, street-car service, telephone service, and the like, to become monopolies acts with a power like that of a mighty river, and we can with safety predict that apparent competition in the field of natural monopoly will prove both illusory and temporary. Most instructive is the observation of great currents in our economic life and the study of the forces back of them.

## CHAPTER XI

A FEW REMARKS ON THE UTILITY OF POLITICAL ECONOMY,  
WITH SOME GENERAL CONSIDERATIONS ON THE RELATION  
OF POLITICAL ECONOMY TO OTHER SCIENCES

**Political Economy a Useful Science.**—The preceding pages have, it is hoped, convinced the reader that political economy is a useful study, and one worthy of the greatest minds. It affords room for the speculative intellect, and yet speculations can be tested by the experiences of actual life. Fancy and imagination, so necessary to all sciences, have here ample scope for their exercise in attempts to construct hypotheses to explain social phenomena. The best powers of observation find opportunities for service, and experience will further sharpen them. The keenest analytical intellect will never be at a loss for material on which to bring all its acumen to bear. Philosophy, which seeks to gain an insight into the innermost nature of things, is most welcome in political economy. Philanthropic sentiment is gratified by the discovery of ways to benefit the human race.

It is, however, frequently asserted that political economy is not practical, that it is in fact “a mere theory,” and as such its claims are often rejected by business men. This is short-sighted. Political economy has to do with industrial society, and knowledge can be acquired about this by systematic study in the manner described. This knowledge can be transmitted and increased by accumulation from generation to generation. The actual experience of the so-called practical man does not take the place of economic knowledge. His experience is too narrow and limited. If he is a man of small nature, he is very positive as to his own infallibility, and looks upon the claim of the economist to be able to give infor-

mation about the business world as unwarrantable presumption. Yet his conclusions are diametrically opposed to those of a practical man in another line of business on the opposite side of the street, and both of them differ in views from the opinions of practical men in a neighboring city. It is because the range of facts of each is exceedingly narrow and because each has been entirely absorbed in his own affairs that they are so certain of mutually contradictory facts. It is partly on this account that the attempt to improve politics by putting practical business men in office has so often proved disastrous, and men have been again and again obliged to go back to the so-called professional politician. Business facts are not all the facts that are needed in government. Finances of government, for example, ought in some respects to be conducted on principles exactly opposite to those which obtain in private financiering. Political economy is a young science—as a separate science scarcely over a hundred years old—and it behooves political economists, though conscious of their own value, to be modest in their claims and to remember that much is yet to be learned by the wisest of them. Nevertheless, how diverse are the elements which have contributed to this body of knowledge! In the historical sketch at the close of this volume it will be seen that philosophers have helped to build it up; that distinguished and remarkably successful business men have contributed their best thoughts to advance its growth; that statesmen of the leading civilized nations have participated in its development, as well as those who have been primarily political economists; while great philanthropists have helped to give it shape. For a century, then, business, philosophy, jurisprudence, and practical politics and philanthropy have helped to make political economy what it has become, and the fruit of so much intellectual effort and such extended experience is not to be regarded lightly, even though it be acknowledged that on account of the complexity of the subject-matter political economy is yet in an imperfect condition. Even where it cannot speak authoritatively it is always entitled to a respectful hearing.

Every man who is not a fool must act according to some theory. The ordinary man is often guided in economic utterances by antiquated theory which has gradually percolated down through several social strata until it has reached him.

A practical man might as well try to get along without a lawyer as a modern nation without political economists. The political economist is in fact to the people as a whole what the lawyer is to the private man. It is the business of the political economist to guard the interests of the masses, and to suggest measures to promote their welfare. The political economist may in some respects be compared to a physician. We can imagine a man saying, "I know more about my own body than a mere theorist who has been studying under college professors and working in laboratories and has never had any practical experience with my body." Yet we know that such talk is nonsense. It is because the practical business man has so often failed to recognize this and to remedy his own shortcomings, and has advanced his crude and antiquated ideals as practical guides, that one of our deepest thinkers in political science has spoken of the "practical man as the bane of our political life." Certain it is that our government will continue to be almost exclusively a government of lawyers until people more generally take pains to instruct themselves in the various branches of political and social science. Government can never be conducted like a manufactory or a mercantile establishment, and every proposal so to conduct it reveals ignorance of first principles.

**Political Economy and Other Sciences.**—Every science contributes directly or indirectly to every other. All knowledge is one. But we are now concerned chiefly with that group of sciences which has to do especially with human society. Before we pass on to remarks about other social sciences a word must be said about philosophy and physiology and hygiene.

**Philosophy and Political Economy.**—Philosophy is perhaps useful especially as a mental training. It seeks to look into the fundamental principles of all knowledge and



inquires then into the nature of the state and of society and the aim of life. It seeks a final reason for things. It gives broad and generous views, and lifts up the mind in the contemplation of immense themes. Philosophy helped to give birth to political economy, and when in England our science seemed on the point of collapse philosophy gave it new life. Philosophy has again and again been a source of inspiration to German economists, and perhaps the lack of it explains the sad deadness of our science in France, where for a hundred years almost nothing has been done toward its real advancement. Philosophers like Fichte and Hermann Lotze must to-day assist economists who are competent to understand them. Logic, regarded as a branch of knowledge, is especially useful on account of the discipline it gives in careful reasoning, particularly in analysis, discrimination, and detection of fallacies.

**Physiology and Hygiene and Political Economy.**—Physiology and hygiene are helpful in the discussion of social questions. Too little has been made of them hitherto. Physiology, for example, ought to be consulted in questions like child labor, labor of women, especially married women, the length of the working day in factories and in open fields. Hygiene furnishes rules for sound physical life. M. de Laveleye even says that the science of health ought to determine the normal rate of wages. The human body is the chief source of wealth, and physiology and hygiene must teach us how to conserve and increase our bodily powers.

**History and Political Economy.**—History reveals to us the economic life of the past with its instruction and lessons. History clearly presents many of our problems, as, for example, the downfall of states. How can we guard against the evil unless we truly know its nature? It seems clear that economic forces are prominent in the decay of civilization. But we have not yet a sufficiently accurate and detailed knowledge of them. A profounder study of economic history must precede a satisfactory political economy. At the same time history itself cannot be understood without

a knowledge of the economic forces which give it shape. This mutual relation between history and economics was well expressed by Professor H. B. Adams, of Johns Hopkins University, when he said that political economy is becoming historical, and history is becoming economic.

**Ethics and Political Economy.**—The relation of political economy to ethics has already been sufficiently indicated. Ethics is connected with what ought to be, both for individuals and for society, and if ethics has heretofore considered man too exclusively as an isolated individual, its progress for the future evidently lies in the examination of social relations. It may be doubted whether ethics can have any real existence except as a social science. Political economy takes what ethics has to offer as a guide for the development of economic life. Ethical conceptions have always governed all social life more or less perfectly. The economic life of ancient oriental nations was more under the dominion of ethical principles than has been that of modern occidental nations. The ethical principles of the East were not of so exalted a nature as ours, but such as they were they permeated the life of the people as ours do not. The national economy of the Jews illustrates this excellently. During the Middle Ages the Church attempted, and for a time with some success, to subordinate all social life-spheres to the demands of ethics. Personal service, returns for loans, and prices were regulated. The conception "fair price" (*justum pretium*) was formulated, and exerted a powerful influence. It seems clear to the writer that industrial peace can never be secured until the supremacy of ethics is recognized by public opinion, and is made effective by laws and constitutions. It is on this account that the institution of "fair rents" in Ireland is to be welcomed. It may or may not work well in this particular instance; that is, the proper method for giving effect to ethical principles may not have been adopted, or it may have been; but the supremacy of ethical considerations in either case is recognized and the freedom of contract distinctly subordinated, as also in the case of American usury

laws. Courts in Ireland fix rents which are regarded as "fair," irrespective of all agreements. We must also notice that "fair prices" are playing an ever-increasing rôle in the United States. This is due to the fact that the field of monopoly is growing, and competition fails us as a sufficient regulator of prices. Now where competition disappears or is manifestly inadequate as a protection of the public, it is a recognized principle of common law that the legislature may determine prices; but in doing so it must be guided by the consideration of fairness, as, for instance, in establishing prices for transportation, for the service of grain elevators, and for gas, all of which have been acted upon by legislation. These legislative prices are frequently brought before our courts, which in their review of such legislation are guided by the idea of fairness. It may be difficult to formulate any general statement of what is fair, but it is not so hard to determine "fairness" in a concrete instance. At any rate it is actually done. "Live and let live" is a homely adage which expresses a popular idea of fairness, and this seems in a rough kind of way to give a guiding principle to the Irish land courts and to American courts in passing upon rates and charges for noncompetitive services and goods. Ethics should investigate more carefully than it has done the nature of mutual rights and duties.

**Political Economy and Religion.**—We may properly enough speak of a knowledge of religions or even of a knowledge of one religion as a science. Theology is a systematic treatment of a certain order of related facts. But in this place we are concerned with religion not so much as a science, but rather as an inspiration, as a power to direct life, and thus as intimately connected with ethics. Religion, like ethics, supplies norms for conduct, but it does more. It supplies a moral force to induce men to acknowledge the truth, and to do what they know to be right.

Every system of religion must affect the general character of the nation under its influence. The fatalism of the Turks leads naturally to indolence, while the old Jewish

religion with its high estimate of the good things of this world tends to stimulate its followers to activity and to accumulation. Christianity moderates desires, sets before us a higher aim than wealth, but dignifies the man who gains his bread by honest toil, and enjoins diligence and improvement of all talents committed to us. Teaching us to love our fellows, it has encouraged enlightenment of the masses, and enlightenment has increased prosperity. Love for our fellows prompts us to promote their physical welfare in every respect, and this in turn tends to conserve and increase their strength.

It is not practicable at present to take up every one of the constantly increasing number of branches of social science and to trace the relations between it and political economy. These relations must often be quite obvious. The treatment of the dependent and criminal classes brings us into contact with a multitude of economic phenomena. These classes impair the productive power of the community, and the number of persons belonging to them is largely, though not wholly, determined by industrial conditions. If the laboring population is housed in crowded tenements in the slums of cities, such a state of things will help to swell the ranks of vice and pauperism. If child labor is general, a generation weak in body and will power, with depraved habits early acquired, may be expected. Many such reflections will occur to the reader, and observation of the life which surrounds him will every day confirm what is here said. Prison labor is a topic which shows the connection, though only a small part of the connection, between penology and political economy. Poor relief, public and private, is just as intimately connected with economics, and it has been discussed, perhaps, chiefly by economists. For instance, it was an English economist, Malthus, who on economic principles helped to introduce a reformation of the poor laws of England in 1834.

**Anthropology** is sometimes conceived of in a large sense as the science of man. It would then include sociology and everything else about man that could not be brought under the

general designation social relations. Usually, however, the science studies prehistoric and early man, man in the lowest stages of his development, and discusses the dawn of civilization. It includes as one part of its field the economic life of prehistoric and early man.

**Law and Political Economy.**—The relation of political economy to law is a close one, especially in our day, for political economy explains the reasons for a great part of the laws, their nature, and the principles which should control their development. Many of the subjects that belong to political economy belong also to law. Both treat of possession, property, inheritance, sale and purchase, loans, gifts, wages, rent, taxation, combinations of labor and capital, and kindred topics. Political economy touches the innermost nature of legal questions. It might not be altogether inappropriate to call political economy "the spirit of the laws," taking the name from Montesquieu's book which bears that title.

As we have seen, political economy has been defined by de Laveleye in such a manner as to convey the impression that it has to do exclusively with legislation. This is certainly too narrow a conception; yet, if we think of live economic questions, we shall find that they are, very generally at least, in part legislative questions. Topics such as the tariff, local taxation, the silver question, bimetallism, railways, child labor, and industrial training illustrate the connection.

When we open a law book on real estate what is found? If it is an American or English book, there is probably very little save present legal facts. The law is thus and so, says your legal authority; nothing more. Political economy tells us how private property in land came to exist, and why it exists, and explains the reason why some changes in land laws should be made, and why some people think that these laws should be radically altered and private property in land, as at present understood, abolished, and why still other people reject this view.

What has been said about real estate holds equally with reference to laws of bequest and inheritance. No man is fit to



legislate on these subjects who knows nothing about political economy. Commercial laws and the laws pertaining to corporations can likewise never be properly handled without the aid of our science.

Political economy is needed as a corrective of certain tendencies in the law. Private law has to do with individual rights, and lawyers acquire a habit of looking at all questions from an individual standpoint. This becomes painfully apparent in reading English and American judicial decisions. The rights of the people as a whole—that is, of the many—are too often overlooked for the sake of the interests of a few. We would be far from attacking the integrity of American and English judges. With comparatively few exceptions they have been men of blameless character. The trouble lies with their point of view, which naturally arises from an exclusive consideration of private law. Every judge is familiar with the bearing of legal questions on the private interest of individuals, but too often loses sight of the millions not present before him. If we go back to olden times or to foreign countries, about which our judgment is fairer, we can all see this tendency of lawyers as a class to sacrifice the many to the few. The common lands of India serve as an illustration. English lawyers could not grasp the fact of common property of a village in land, and so looked about for a private owner, and, mistaking a tax-collector for the proprietor, they made him a real proprietor. Thus the villages were robbed on account of legal incapacity on the part of judges to grasp the economic situation. The same thing happened in England, as Sir Henry Maine, John Stuart Mill, and others have shown. The common land belonging to English villages was allowed to be inclosed by lords of manors, and thus the property rights of the forgotten millions were again sacrificed.

Private law is concerned with petty details, and attaching undue importance to them is apt to exaggerate the importance of mere legality, the letter and machinery of the law. Political economy gives large views and general principles.

Voltaire called lawyers conservators of ancient abuses, and Professor Bluntschli speaks of law in itself without any corrective influence as "tending to the numbness of death," failing "to keep step with the development of life." Rule by judges tends to petrification, and is conservatism of a revolutionary, because obstructive, type. Lawyers have doubtless caused by obstruction many revolutions, and they can rarely reconcile themselves to great progressive changes such as the independence of the American colonies or the unity of Germany or of Italy until after these things have taken place. The reason is that they are always looking back to the past for legal precedent, never ahead, which begets a dangerous habit unless other tendencies are at work to correct, or perhaps more properly to modify, the force of this conservatism. Political economy is progressive, and helps to counterbalance a dangerous tendency toward revolutionary conservatism.

Law is concerned with modern industrial life. To an increasing extent legal questions are becoming almost purely economic, as seen in boycott, blacklisting, conspiracy, and combination cases. Legislators make laws to apply to these cases; and judges, in their decisions, do not merely find the law—they make it. Recently in such cases American judges have been more active in legislation than have the legislators themselves. Indeed, it is the opinion of many publicists that any constitutional changes which are wrought hereafter must be made through interpretation, by our Supreme Court. Yet legislators, and to an even greater extent judges, are unfit to make decisions which will stand the test of time without a profound knowledge of political economy. It is with propriety, therefore, that France and Prussia require a knowledge of political economy in all candidates for admission to the bar, and that some of our best American law schools have rendered instruction in political economy at least accessible to their students. Such study should be a part of every law course, and every candidate for admission to the bar should be compelled to pass a thorough examination in political economy.

But political economists in turn need law. Perhaps no study is more useful to them. It is a splendid training for the mind. The material of law and political economy is the same, but in law we have a ripe experience of thousands of years in analysis, arrangement, and exact statement. It gives precise facts about present institutions. It shows the basis on which progress must build. It shows how deep are the roots of our present social order. It emphasizes the importance of the statics of political economy and corrects a tendency toward revolutionary rashness, which is the opposite of all true progress.

We have been speaking of private law, which has to do with legal relations of private parties. We must now refer to public law, which is concerned with the relations of public bodies to one another, or with the relations of public bodies and private parties. *Public law* and *politics* constitute political science. Their relation to political economy is sufficiently obvious. Political economy places aims before political science, and political science strives to realize these along with its other ends. Constitutions, the highest expression of public law, must be made to conform to industrial conditions, and this conformity can be brought about only by political economy. The trouble with our American constitutions with respect to taxation, bankruptcy, and divorce and marriage—and divorce and marriage imply the weightiest kind of economic relations—is that they have not kept pace with economic changes. And the difficulty of securing such accordance is precisely the most serious danger of written constitutions. That is the weakness of our federal constitution. Economic life changes continually, but the constitution is by many deemed practically unchangeable, except by interpretation. If that be so, the instrument can only with difficulty be made to conform to industrial life.

A minor division of the general subject of law is *international law*, which deals with the relations of sovereign states. This department of law is constantly increasing in economic importance. Economic relations are becoming in-

ternational with a truly astounding degree of rapidity. Competition is international, and we have world markets for staples. Combinations of labor and capital are international. Government itself forms international postal and telegraph unions. Switzerland has formally proposed to other governments international factory legislation to protect women and children and other wage-receivers, so as to place manufacturers in different lands on the same footing in competition. A body of international law with effective means for its enforcement is needed for the organization and regulation and preservation of international economic relations. Never before to-day has the necessity been so great or so evident. In the stupendous world-struggle upon which the great civilized nations have entered it will require the greatest wisdom and humanity to prevent excesses of which our descendants would be ashamed. International peace congresses, international conventions, and a more powerful and more far-reaching code of international law will do much to regulate and keep within the bounds of moral conduct the strenuous activities of lusty and aspiring nations.

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**Literature.**—Bluntschli, *Modern State* (translation), chapter i of Introduction; Reinsch, *World Politics; Science Economic Discussion*, article on “Economics and Jurisprudence.” This pamphlet, though now out of print, is accessible in most public libraries.





**PART II**  
**PRODUCTION**



## CHAPTER I

## INTRODUCTORY

**Utilities.**—Man creates no new matter. Neither the farmer nor the merchant adds one atom to the existing material of the earth. Yet they are both called producers, and properly so. What, then, do they produce? Simply quantities of utility. And how do they produce quantities of utility? Simply by putting things in places appropriate to that purpose. Man can only move things, and when he moves them in a suitable manner he creates utilities. "This one operation," says John Stuart Mill, in his *Political Economy*, "of putting things into fit places for being acted upon by their own internal forces and by those residing in other natural objects, is all that man does or can do with matter."

It has seemed to some even among economists that the farmer is more truly a producer than the manufacturer, and the manufacturer than the merchant; but such is not at all the case. All of these industrial classes do the same thing. They produce utilities by changing the places of things. The farmer adds nothing to the material of the globe, but he gives direction to the forces of nature so that existing material becomes better adapted to the wants of man, and thereby more useful. He drops corn into the earth, and thereby puts it into a fit place for being acted upon by external natural forces. From time to time he removes weeds and throws earth about the stalk which grows up, and portions of earth, air, and moisture take new relative positions, and the result is again corn, and more corn. Changed places and natural forces have rendered things more useful. All this while man has done nothing but put things in fit places.

The manufacturer changes forms and combinations of raw material by putting things into fit places, and he likewise

produces utilities by securing the aid of natural forces within and without the object of production. The merchant similarly takes things from places where they are less useful to places where they are more useful. He produces utilities as truly as does the farmer or manufacturer. It may well be that the utilities actually produced by the merchant could be produced with a smaller expenditure of economic force than they are at present, and that saving could be secured by a better organization of the factors of production; or it may be that at times the merchant has been able to secure a larger return for the production of a given quantity of social utility than has the farmer; but all this is no justification whatever for the popular impression that he is less productive than any other person who is engaged in economic work.

Production, then, means simply the creation of utilities by the application of man's mental and physical powers to the physical universe, which furnishes materials and forces. This application of man's powers is called labor.

Those quantities of utility which result from labor are called economic goods, but not all economic goods are the result of labor. Probably any reader of this book would call a vacant lot on Fifth Avenue in New York city a material good thing, even if no person has ever expended a day's labor on it. It is desirable at this point to have a clear idea of economic goods, and a definition is therefore offered. We will begin with the word good. Everything that satisfies a human want we call a good; and here on the threshold of our science we see how absurd it is to say that politico-economic laws are independent of man, and would be what they are if man did not live on the earth. We cannot get half way through our definition of economic goods before we have brought in the human element.

Goods we divide into the two classes of free goods and economic goods. The former are those which exist in superabundance, and are offered freely to everyone without charge. Air and water are usually free goods, and in a new country even land is frequently free.

*Economic Goods are those goods which are usually and regularly obtained by man only by exertion, and which, or the use of which, may be disposed of for other goods.* They may be further characterized as directly or indirectly exchangeable for all goods which come on the market. With the idea of a money economy in mind, we may say that they are goods which exchange for money, or, in other words, goods which are bought and sold.

A few points require further explanation. We have said that they are "usually" obtained by exertion. One may pick up a diamond or a nugget of gold upon which one has stumbled. Mere picking up of these articles cannot properly be called labor. Yet it must be remembered that the whole stock of gold and diamonds has cost an almost inconceivable amount of toil and privation and suffering.

Again, we have said that the goods or their use may be disposed of for other goods. This enables us to include in our definition both material and immaterial goods. A person's technical skill, which is acquired only by labor and which is often very productive, is an example of immaterial goods. The central point of our science is the conception of man in his relations to material good things, but since man himself cannot be bought and sold, it does not seem practicable to exclude from the rank of economic goods utilities which are fixed and embodied in human beings. Once many men could be bought and sold, and they then took their place with horses and oxen among material goods. Now man may sell the use of his powers. It is hard to draw the line, but it may be done, with sufficient accuracy, by keeping in mind our central conception. We would not speak of the cultivation of our faculties, merely for the sake of our own better development, as economic exertion in any strict sense, although it might well have economic consequences. The economic life and its goods are subservient to man. We call the acquisition of technical skill an economic process, because it has reference to the creation of utilities incorporated in material good things. The direct labor expended on matter we may



call a primary economic process, while that labor which prepares us to expend our augmented power on material things to render them useful, or more useful, we may call a secondary economic process. There is a form of production in which economic exertions and noneconomic exertions meet, as in the case of the common school education of the young, which not only ministers to the full life of the students, but also promotes their economic efficiency. There are such border lines, where discrimination is difficult or impossible, in the natural sciences as well as in the social and mental sciences, but they need not as a rule occasion much difficulty.

**Wealth.**—Political economists have usually called economic goods wealth, but this usage is open to the objection that wealth, in ordinary language, generally means large quantities of economic goods, either absolutely, in proportion to one's wants, or, as is oftener the case, relatively, with reference to the possessions of others. Wealth is also often used to denote the economic goods belonging to an organized society of men, especially of a nation. In such a sense we compare the wealth of England with the wealth of France or Germany. We would hardly say that Germany is not a wealthy country, but, rather, not a rich country. Notwithstanding this ambiguity in the term, wealth has so generally been used for economic goods, and is so convenient a term—so much more convenient than the larger term of two words—that it may not be possible, perhaps not even desirable, to displace it entirely. The two terms can be used interchangeably in many cases, care being taken to employ the expression economic goods wherever it will make our meaning clearer or help to avoid misunderstanding.

**The Individual and Society.**—One distinction runs all the way through political economy—the distinction between the social and the individual standpoint. We have consequently to distinguish between social and individual wealth, for what is wealth to the individual is often not wealth to society.

Illustrations of this fact are abundant. A mortgage is individual wealth, but if the claim it stands for is extin-

guished, society is neither richer nor poorer. Similarly all state, municipal, and federal bonds represent claims on the industry of the people, and if all these bonds should be destroyed, the bondholders as individuals would suffer loss, but society as a whole would be neither richer nor poorer, and society, exclusive of the bondholders, would have gained at the expense of that class.

**Productive Elements often Overlooked.**—It will be well at this point to call attention to some important facts which are frequently overlooked. A large part of production even now is household production, as it may be called, and is not designed for the market-place, which indeed takes no note of it. Every well-regulated household is an establishment where valuable things or quantities of utility are produced. Food is prepared for use, and prepared food is worth far more than unprepared, as we discover when we purchase it at a boarding-house, restaurant, or hotel. Often the prepared food sells for more than twice the cost of the unprepared food. Still other utilities are produced in the household. Clothing is prepared and repaired, comfortable shelter is afforded, and strength of body and mind of the chief productive factor, the human being, is nourished there. As Mr. Edwin Cannan, in his *Elementary Political Economy*, says, the labor of at least half of the women of a country “is expended in producing material good things for the use of the producers.” Now it is a fact that more than half of the human race in civilized nations is composed of women, and if it is admitted that women labor as long and as severely as men, it follows that a fourth of the labor of men and women combined is destined for the household and not for the market. But there is another part of the annual income of the country of which no account is taken in the ordinary money-estimates. Three fourths of the population of the United States is rural, and in the country a vast amount of material good things produced is destined for the household, and is rarely financially estimated. Vegetables, small fruits—cultivated and wild—butter, eggs, meat, fish caught in public waters, and

game may be mentioned. Even wild nuts gathered are not altogether insignificant. Large as is this aggregate income which is wholly neglected or in any case very much understated in estimates of annual production, it is by no means all. Property yields an income by use. My own house when occupied by me as truly produces a part of my income as when I rent it to some one else, for in either case I receive simply a quantity of utility. Horses, carriages, wagons, furniture, books, works of art, and the like, all annually produce quantities of utility, and these often have a large market value when offered for sale. Yet these utilities, when produced by goods owned by those who enjoy them, largely escape valuation. All this will show how inadequate and even absurd are many current estimates of average per capita production of wealth.

**Misleading Comparisons between the Past and the Present.**

—Another important fact to be noticed in this connection is the misleading nature of ordinary comparisons between the wealth annually produced at the present time and the wealth annually produced at an earlier day, say fifty years ago. While household production is still important, it undoubtedly has relatively diminished in importance. Production of things which are bought and sold in the market-place, and are consequently readily estimated in money, is constantly gaining in importance on household production of material good things. Hence annual production of material good things, or, broadly speaking, of economic goods which we estimate in money, increases more rapidly than does real annual production; and there is, consequently, a tendency always to exaggerate progress, and, indeed, to count as progress some things which are retrogression. Should boarding-house and hotel life totally displace private housekeeping, for instance, it would increase the apparent annual production of wealth, while the real wealth of the country would be affected in no such degree.

**Census Estimates of Wealth.**—What has just been explained will prepare us to understand that all census returns of wealth are, in many respects, of necessity defective and mis-

leading. The importance of the matter will justify a further study of the question. In the first place it must be noted that census returns are made in money. Now if commodities are very abundant as compared with the stock of money and the activity of credit, the price will be low, while the real wealth of the country is great. Let us suppose that the quantity of cotton cloth of which account is taken doubles between two censuses, and that the price falls one half. The wealth of the country in this respect has apparently not increased at all, but in reality it has doubled, because wealth consists in quantities of useful things. In the second place, we must remember that the census includes forms of private wealth that are not public wealth, but which often resemble rather a taxing power. This is the case with many franchises recklessly granted to private corporations. An illustration will help to make the author's meaning clear. Baltimore street-car companies pay to the city for the maintenance of public parks nine dollars out of every hundred they collect in addition to ordinary state and city taxes. The telegraph in other civilized countries than ours is public property, and can only be valued at the cost of the plant, land, buildings, etc., while in the United States there is an enormous additional valuation on account of the fact that the telegraph is private property, and that in the nature of things it is a monopoly. In this respect we are apparently far richer than countries like France and Germany, but again reality contradicts appearance, for the census returns are misleading. Again, take the case of our post-office. It can figure in census returns only for actual value of its plant, while if it should be made over to a private corporation, it would soon have a capitalization of hundreds of millions of dollars. Apparently the wealth of the country would be increased, but really we as a people would be poorer, for we would be obliged to support an army of highly paid officials, a host of costly attorneys, and an expensive and demoralizing lobby, which would be employed by the private company to shape post-office legislation for private ends.



**Technical Terms in Production.**—It may be well in this place to mention or explain some of the technical terms that are frequently used in discussions of topics bearing on production. Isolated production and social production, or domestic production and production for exchange, are terms which have already been explained in the previous part of this work. Individual production as differing from social production will be understood from the discussion of this chapter. It must be remembered that individual production not infrequently is socially destructive, as when the proprietor of a gambling resort heaps up riches to the great demoralization and economic loss of society. The terms large-scale production and small-scale production occur so frequently in economic discussion, and are so plain in their meaning, that we need not dwell upon them here.

**Over-Production and Under-Consumption.**—The purpose of production is consumption, and if more is produced, more must be consumed. Power to consume is measured by purchasing power, and power of consumption sets a limit to production. There is no such thing as general over-production, for it can never happen that more economic goods of all kinds will be produced than men really need to satisfy their legitimate wants. On the contrary, not enough has ever yet been produced for this purpose. Sometimes production does not go forward evenly, and there is an undue amount of labor and capital directed to certain pursuits, but until all men are well clothed, housed, and fed, and furnished with material appliances for their higher life, such as books, pictures, musical instruments, and church buildings, it will be a manifest absurdity to talk about general over-production. When there is almost universal difficulty in disposing of goods which have been or are being produced, the real phenomenon is rather to be described by the term under-consumption. Men want these goods; they are willing to give services in exchange for them, but they cannot dispose of their services directly, and consequently they lack purchasing power. A glut in the market always means under-consumption. It is one of the



sad and curious features of the life of the modern economic society that its parts do not always fulfill their functions harmoniously; that often parts are more or less incapacitated and the body thus brought to a diseased condition. Some have supposed that luxury and extravagance are able to remedy gluts in the markets, but this is impossible. On the contrary, they frequently bring about a diseased condition of industrial society which leads to gluts.

**Relation of Production to Other Departments of Political Economy.**—Production, taken in its widest sense, includes everything in political economy except consumption of goods. The acquisition and employment of goods embraces the entire economic activity of man. “Transfers of goods,” which are for the most part exchanges, form one part of production. Distribution is in early stages of society nearly identical with production, and is so, to some considerable extent, even to-day. Thus, in the earliest stages of economic development, what a man produces constitutes his income. A man catches two fish in a day, and these are his income. It has been said by others that even in modern society there are no separate organs of the economic body concerned with distribution. Distribution may in the main, perhaps, be said to follow naturally from the existing system of production. Yet this is not wholly so. Laws and institutions modify more or less consciously the distribution of wealth. For example, this is the avowed purpose of the French law of inheritance, which divides the bulk of a father’s property equally among his children, regardless of his wishes in the matter. Moreover, as production is at present carried on under our laws of property, many people who by their own efforts contribute nothing whatever to production enjoy a large amount of what is produced.

Another part of the general subject, entitled finance, treats of the acquisition and employment of means by governments. But there are many peculiarities concerning the housekeeping of governments which render it advisable to treat this subject by itself, and not to distribute the matter among other main

parts of political economy. We have, therefore, adhered to the traditional distribution of the matter, admitting that it is not strictly logical to make the conventional divisions—production, distribution, transfers, consumption, and finance—as if these were equal in rank. It would be more logical, perhaps, to place transfers and distribution as sub-heads under production, but it would be a more cumbrous arrangement, and strict logic is therefore sacrificed to convenience.

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**Literature.**—Mayo-Smith, *Statistics and Economics*; Meitzen, *History, Theory, and Technique of Statistics*.

## CHAPTER II

## MOTIVES OF ECONOMIC ACTIVITY

**Wants.**—It may be said, in a word, that the wants of man supply his economic motives. This is a true statement, but it is too vague to be serviceable. Man's wants are of all kinds. They include pleasurable exercise of our faculties, the discipline of toil, the physical means for the support of one's own life, the physical means for the maintenance of the existence of others, love, friendship, religion, and an infinite number of other wants ethically commendable or ethically censurable. No man, save a foolish or insane person, engages in economic activity except to satisfy some kind of want. There is a purpose in the action of rational men. We may speak about one's own individual wants, about the wants of other individuals, and about the wants of states. All of these orders of wants supply motives.

**Self-Interest** is one economic motive, and certainly a most powerful one. It is not the sole motive, and in itself it cannot explain the economic life of nations, as has been already seen. Self-interest acts differently under different circumstances. In India it will lead a man to do one thing, and in England perhaps quite another thing. But what do we mean by self-interest? Assuredly not always the same thing. Self-interest to a savage may mean simply the interest which he feels in himself directly and indirectly. With us it is taken for granted that a man's self-interest includes interest in his wife and children. Thus, when we say that a man is prompted in the business world by self-interest, we assume that his activity is directed to the benefit of at least his own immediate family. Self-interest thus includes a narrow circle when reduced to its lowest terms, and this fact shows itself not merely in using money earned, but in productive processes;

sometimes even unjustly, as when relationship unduly affects salaries, number of holidays, and other privileges. But the circle of self-interest is capable of indefinite expansion until within one's own personal interest come to be included those of a town, a county, a state, a nation. If self-interest becomes so broad in its scope as to identify self with humanity, as now with one's family, we have Christian altruism. What is wanted, therefore, is not to abolish self-interest, but to widen the circle of its activity.

Self-interest is not a bad thing. It is a good stimulus when it assumes its proper form. Self-interest is compatible with a generous consideration for the material welfare of others. I am one of mankind, and my love for humanity includes myself. If I neglect the care and development of myself, I injure humanity. The humanitarian spirit includes both self-love and love of one's fellows. But self-interest may become diseased, and then, placing self above others and neglecting others, it becomes selfishness, which an ethical teacher has called the true source of all sin.

**Patriotism** is a motive to economic activity, and a powerful one, especially in times of great awakening of national spirit.

**The Christian Religion** renders service a duty, and pronounces the man who lives in this world without rendering himself personally useful in the work of mankind a thief and a robber. It is a powerful economic motive, particularly in the highest natures.

**Self-Interest, Public Spirit, Brotherly Love.**—Professor Wagner, of Berlin, has from a somewhat different standpoint spoken of three principles in national economic life, to each of which he ascribes a special motive. One is the principle of individual and private enterprise, in which self-interest is dominant. The second is the principle of public activity—the social principle as opposed to the individual principle of private business. This second principle corrects, modifies, and rounds out the first. Private and public activity supplement each other. We have finally the third principle, that of brotherly love, the caritative principle,

filling in gaps, supplying omissions, and mitigating the severities of individual and of public action. Self-interest, brotherly love, and public spirit are, then, three motives of economic activity, but they are not exclusive one of another. They pass gradually over into one another and are often indistinguishable.

**Love of Social Esteem.**—When we pass in review these various motives we discover that the love of social esteem enters as a profound element into every one of them. There is, in fact, nothing else that explains so large a proportion of man's social life in general and of his economic life in particular. It is a certain and almost universal test of socialization in the conduct of an individual and in the life of a community. It directs production and controls consumption. After the barest physical necessities of life have been satisfied—and even here it is largely a determining force—the love of social esteem exercises the most widespread and most powerful influence in the life of man. It overcrowds the so-called genteel occupations to the starving point, and depletes the ranks of those whose employment is called menial. It induces the man who has painfully accumulated a fortune to spend it lavishly upon those things which he thinks will win him public favor. Lack of it or loss of it drives the desperate into the ranks of criminals and voluntary paupers. All this brings sharply before us the mighty power for good or ill of public ideals of wealth acquisition and wealth expenditure.

**Commendable and Censurable Wants.**—We may classify wants, further, into commendable wants and censurable wants. Wants which are satisfied by those things that serve as a basis for the full and harmonious development of our faculties are commendable wants; wants which are satisfied by other things that are not positively helpful or are positively injurious are censurable wants. Wholesome food, comfortable clothing, commodious shelter, books, musical instruments, fine works of art, are all things which minister to commendable wants.

**Luxury.**—Luxuries are things which minister to such censurable wants as love of display, vanity, or the selfish desire



to exalt one's self above one's fellows. We generally think of luxuries as costly things, but a wanton and luxurious expenditure for dress may in a vain woman's lifetime amount to far less than the perfectly justifiable expenditures of her neighbor to promote in herself, her family, and others an appreciation and love of the beautiful. Proportionality is one element in determining whether a thing is a luxury or not. If the real gain to one's self corresponds to the outlay, it cannot be called a luxury. One test is to ask this question: "*Would I myself, if normally constituted, obeying ethical principles, be willing to undergo the toil and sacrifice that the article has cost for the pleasure it affords?*" The answer must be in the negative in the case of articles like Belgian handmade lace, which is the product of long, weary toil of poorly paid girls who often lose their eyesight in this work. Dr. E. W. Bemis, of the Bureau of Economic Research, has characterized it thus: "Luxury is whatever contributes chiefly to enjoyment rather than to a better training of our powers. Luxury is defensible only in so far as it does not hinder the development of a better manhood in us and in all those whom we could influence."

**Public and Private Luxury.**—The consideration of proportionality will show that expenditures for the public, either by the public or by private individuals, may have a justification which would be altogether lacking in the case of similar expenditures for private enjoyment. What is luxury for a private person is not at all necessarily luxury for the public. Grand public buildings, which lift up and inspire the people, magnificent art galleries, great universities, splendid common schools and academies, are excellent things, and the toil and sacrifice which they require are well repaid in the returns made in the higher and better life of the people. Wants to which these minister are among the best national wants. It must not be forgotten, however, that public expenditures may also be for luxuries. Such were the "*panis et circenses*," or bread and shows, which decaying empire threw as a sop to the Roman populace. It is only in a morally diseased condition of a people's consciences that lavish outlays

will be approved for private individuals while parsimony is prescribed for the public.

We occasionally hear private luxury defended by an argument which is so manifestly weak that it scarcely deserves attention. It is said, "It gives opportunity to work." But manifestly the same expenditure for humanity would give an equal opportunity.

Moralists, philosophers, statesmen, and religious teachers have all united to condemn luxury, and to it has very generally been attributed the downfall of states. Among those who have spoken strongly on luxury we may mention Plato and Aristotle, all the Church fathers, Thomas Aquinas, the greatest of the mediæval philosophers; Adam Ferguson, the Scotch philosopher of the last century, and M. de Laveleye in our own century. There can be no kind of doubt as to the teaching of Christianity on this subject. We may roughly divide those things which we want into necessities, comforts, conveniences, and luxuries. We satisfy our own wants in the order named. Manifestly we are not even making an effort to love our neighbors as ourselves when we indulge in luxuries while our neighbors lack the necessities, comforts, or even conveniences of life.

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**Literature.**—M. de Laveleye, *Luxury*, in the Sonnenschein Social Science Series; the same author, an article on "Morals of Luxury," in the *Popular Science Monthly* for March, 1881; also in his *Elements of Political Economy*, Book IV, chapter ii, section 1; Sidgwick's *History of Ethics*, chapter iii, for a discussion of the ideas of the early Church on luxury; Roscher, *Political Economy*, Book IV, chapter ii (translation); Veblen, *Theory of the Leisure Class*; article entitled "Some Aspects of Luxury," in the *North American Review* for February, 1889, by Professor F. S. Baldwin; *The Liquor Problem*, a volume prepared for "The Committee of Fifty," by Frederick H. Wines and John Koren; "Economic Aspects of the Liquor Traffic," the twelfth annual report of the United States Commissioner of Labor for 1897-8.

## CHAPTER III

## THE FACTORS OF PRODUCTION

THERE are three factors of production, of which two, nature and labor, are primary and original, and the third, capital, is derivative and secondary. We will consider these briefly in the order named.

**1. Nature.**—The part played by nature in production has already been discussed at some length in Part I of this book, where it was explained that nature is one of the two main factors which make up the national economy, the other being the factor man. We include under nature all natural forces used in production, as the wind, the movement of water, attraction of gravitation, and cohesion. Many of these things furnished by nature are free goods and not economic goods. Nature, economically considered, is generally called simply land, because, of those things belonging to external nature, it is with land that we have principally to do in political economy. It must, however, be observed that the word land in this use has a very broad meaning, and includes what is below the surface of the earth, and water so far as it is appropriated by private parties; and also, in some respects, the entire surface of the earth. This factor is in early stages generally common property, but in later stages of life it has been private property, and a return for its use has been secured by private individuals, or, in some cases, by the public, when owned by the public and leased to private parties. The return which land in itself, apart from capital or labor, yields, is called rent. This is pure rent, or economic rent, which is a different thing from rent as ordinarily understood, for rent in popular usage includes recompense for the other factors of production, as in the case of the ordinary tenant farmer, whose rent includes interest on the capital invested in the

farm buildings, in fences, and in land improvements. Pure rent can best be observed in cities, where it is the annual value of lots on which buildings stand. A large portion of the land of Baltimore, Philadelphia, and London is owned by men who do not own the buildings and other improvements, but who receive from owners of improvements an annual rent.

Land renders three services to production. In the first place it gives a "standing place or standing room." It is something on which we can rest and move about while conducting productive processes. Mere space in itself is often extremely valuable, as can be seen in the case of city real estate; and as population is rapidly growing, and as a continually increasing proportion of the population dwells in cities, this service rendered by land is constantly becoming more important, and the return in rent will probably augment rapidly for a long time to come. In the second place, land contains the elements needed by plant-life, and thus serves agriculture. We call this property of the soil its fertility. Finally, land contains natural products below the surface of the soil, such as coal, natural gas, petroleum, iron, gold, silver, and other metals. These are the natural treasures of the earth. Man does not create them nor give direction to nature in their formation. It has seemed to some nations unfair that these natural treasures should become the property of individuals, and such nations have treated them as a common heritage, exacting a rent or royalty for the opportunity to appropriate them. This is perhaps generally the case on the continent of Europe, but English law, with its inclination to exaggerate private rights, established the principle that he who owns the surface owns downward to the center of the earth, and upward to the sky. It is a peculiarity of land that its quantity cannot be increased appreciably, and thus it is sometimes spoken of as a natural monopoly. This use of the word monopoly, however, seems hardly accurate. True, land is a limited factor, but there is no inevitable tendency to monopoly in the ownership or management of it.



**2. Labor.**—Labor is the second of the two primary factors in production. It is service supplied by human beings, and is essentially different from other goods in that it is always connected with a personality.

Moral and intellectual qualities influence its productive-ness. Temperance, trustworthiness, skill, alertness, quick perception, a comprehensive mental grasp, all these and other good qualities belonging to the soul of man are of chief importance in man. His mere physical strength in itself is a poor thing, being surpassed by that of many of the lower animals; but man is far more productive, and even in the days of slavery, sold for far more than did an ox or even a horse. The economic value of intellectual training is generally not sufficiently appreciated. It has been ascertained that, with no noteworthy exceptions, the higher in any part of the United States is the per capita expenditure for schools the higher is the average of wages, and the larger, consequently, the production of wealth in that section of the country.

**Growth of Population.**—The supply of labor is increased with the growth of population, and to this there is no absolute limit save the means of subsistence. Fear has been expressed that growth of population may outrun the food supply. Malthus, a great English economist of the beginning of the century, advanced a theory of population which has since been called, from his name, Malthusianism. It is simply this: population tends to increase in geometrical progression, while the best we can hope is that food supply will increase in arithmetical progression; consequently, if there were no check to the natural increase of population, men would in a short time starve to death. But there are checks to the growth of population, and these are of two kinds, positive and preventive. Positive checks are those which keep down population by killing off people, and include plagues, pestilence, intemperance, vice, crime, and war. Preventive checks are those which keep down population by preventing the birth of an undue number of people, and include prudence in contracting marriage and actual abstinence from marriage. These are checks of a moral



character. Men who are conscientious will not marry until they feel that they will probably be able to support a wife and bring up children worthily. As population becomes denser the moral restraint postpones marriage, and as the age at marriage increases the average number of births will decrease. In fact, statistics show a great relative proportion of children born to parents under twenty-five. Innumerable customs exist all over the world, especially in older countries, which operate to postpone the age of marriage, and these tend to prevent an undue growth of population. The only practical conclusion which Malthus drew from his doctrine was this: let no one marry until he has a reasonable prospect that he will be able to support and bring up a family of the average size. He wished to intensify the feeling of parental responsibility.

At the present time nothing more in the way of restraint to population seems necessary in the United States than to keep from our shores the lowest classes of foreigners and to exercise generally in the matter of marriage and procreation that prudence which has long characterized the really best classes of American society. Nevertheless, it must be admitted that by no human possibility can population long continue to increase in the United States as it has done in the past, for in a comparatively short period there would not be standing-room on the surface of the earth for all the people. Our population has during the decade 1890-1900 been increasing at a rate which, if continued, would result in a doubling of the population in less than forty years. If it continues to increase at this rate, or at any rate which is obtained by constant multiplication of the number at one period to produce the number at the regular successive period, we have a geometrical progression. The population is now about seventy-six millions. Two hundred fifty years is a short period in the world's history, but if the increase should continue at the present ratio, our population at the expiration of that period would exceed the present population of the entire earth.

The almost magical potency of a geometrical progression has been shown more clearly still in the following illustration, borrowed from Marshall's *Economics of Industry*.<sup>\*</sup> Let us suppose that there are only two people on the face of the earth, and that population doubles only once in fifty years. At the expiration of three thousand years the whole surface of the earth—land and sea—would be covered with people piled one on top of the other eight hundred deep.

Manifestly the present rapid rate of increase of population cannot continue forever; yet the fact does not cause great uneasiness. It has been urged by some writers that as man develops intellectually, and as civilization becomes more highly organized and complex, human fecundity will decrease and the growth of population will become slower. Others think that prudential and moral restraints will be ample to prevent an undue increase of population.

The chief cause for anxiety lies in the fact that for some reason or other it seems to be more difficult for a large population to live peaceably together under present industrial conditions than for a small one. There is ground for the anticipation that the growth of population will test the worthiness of our civilization to endure, as other causes have tested older civilizations. We may be sure that if there is a moral governor of the universe, modern nations, like ancient nations, will be called upon to show their fitness to survive. Every time the sun rises it looks upon a larger population than ever before in the United States, and consequently upon a more complex industrial civilization. A mighty force is at work, day and night, night and day, never ceasing, thrusting upon us more and more serious social problems. These problems can never be solved by the policeman's club or the soldier's bullet, for this quiet onmoving force laughs such repression to scorn. Only righteousness can solve them, for only in righteousness is there power to enable us to adjust ourselves to our new environment.

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<sup>\*</sup> The reference is to the early edition by A. & M. P. Marshall.

**3. Capital.**—Capital is the third factor in production. It is not one of the two first things in political economy, but it is a combination of these two. Much in the same way that oxygen and hydrogen combine to produce water, so land and labor together produce capital. Capital is neither land nor labor, but, resulting from the two, it is a new thing and has properties of its own. *Capital is every product used or held for the purpose of producing or acquiring wealth.* There are two elements in this conception: first, that of stored-up goods, and second, that of use in the future.

It is often said that capital is the result of saving, but this statement is misleading. Saving as such is a merely negative act and cannot produce any positive result. We must have something to save—that is, we must first produce—and then over and above the necessities of life there must be a surplus; if this is laid by or saved, it may become capital.

The aid which capital renders to production is essential to any production of economic goods save the most primitive and limited. It is, as the Austrian economist, Professor von Böhm-Bawerk, well says, “the medium through which the two original productive powers exert their instrumentality.” It consists of those things which are used in further production, or which are technically spoken of as being in the process of ripening, whereas a store of wealth actually ready for consumption would be designated simply as consumption goods, and not as capital. It means a surplus, and this surplus renders possible an effective combination and organization of the productive factors. Nothing is more disastrous than to be obliged to work to-day for the food of to-day. When this is necessary no systematic activity is possible, for we must seize the first opportunity which offers to get food, however miserable that food may be. Wealth accumulated—including consumption goods and capital—means that we can postpone consumption, working to-day for the food supply of some future day. We can thus organize productive forces, we can survey the field of industry and secure the best place to apply these forces. We can put in our seed-corn and wait until it

produces sixty or a hundred fold instead of wandering through the woods for uncertain game, which when taken is slaughtered, and, losing its power of increase, renders no whit easier the problem of producing to-morrow's supplies. The exact function of capital in production may be expressed in these words: It enables men to substitute roundabout methods for direct ones, by furnishing the tools for such production and by permitting the lengthening of the interval between effort and final effect or consumption. Roundabout methods of production are almost without exception more efficient than direct ones, but roundabout methods require an increase in tools or machinery and a longer time. As is explained in another place, capitalistic production, as it becomes more perfect, shows a continual increase in the number of steps between the initial movement and the final product, and a continual increase in the length of the interval. The lengthened interval is usually a necessary condition of the indirect processes. Capital claims and receives a part of the product, which is called interest. Often we speak of profits in this connection, but when profits include more than interest they embrace something else besides the simple return on capital.

**Social and Individual Capital.**—We must always distinguish between what is capital to the individual and what is capital to society; that is, between social and individual capital. Only socio-economic goods, or material goods and accumulated personal products of past toil, can be regarded as social capital. Bonds, mortgages, and all evidences of indebtedness are no part of social capital, but they are individual capital. Franchises are no part of social capital; they are simply permission to make use of existing social capital, or to create social capital. The capital of society is not diminished when the value of corporate property, such as railways, telegraphs, and telephones, is reduced to a fair valuation upon the basis of the actual social capital invested. It may or may not be morally right, it may or may not be legally possible in any concrete case to equalize social and individual



capital; only the particular circumstances surrounding that case can determine. In any event, it is important for clear economic reasoning to keep in mind the distinction.

**Capital and Consumption Goods.**—Not all accumulated wealth is to be regarded as capital. Capital goods are goods of the second order. Their value passes over into goods of the first order, which we may call use or consumption goods. Food and clothing ready for use and in the hands of the users are primary goods. They have reached their destination and are not to be looked upon as capital.

**Fixed and Circulating Capital.**—It has been common among economists to further classify capital as fixed and circulating. Circulating capital is capital which can be used only once, or in one round of operations. Its entire value passes over into the product. Fixed capital, on the other hand, is capital which lasts for a succession of operations, and only a part of the value of which passes over into the product with each use. Coal used in a blast furnace and the raw materials in manufacture are examples of circulating capital; the coal-cart in which the coal is hauled is fixed capital.

**Wealth Saved by being Consumed.**—Wealth, although consisting of saved products, is itself consumed. When food is used for productive purposes it is consumed as truly as when used for present enjoyment. Let us suppose that I can raise a certain amount of produce on my farm. I may, if I choose, raise necessities and also delicacies, and consume all that I raise. But let us suppose, instead, that I raise only necessities, and that while I raise twice as much food as I can use, I give half of my produce to a man who constructs a barn for me. I have accumulated capital, but the consumption of food has not been diminished thereby. Obvious as this is, it is not understood so generally as it should be. There is a widespread impression that it is better for a man to spend his substance in riotous living than to save it; but the man who builds houses makes as large purchases as he who expends the same sum in feasts, and society is richer because of the latter consumption; the houses still remain.



**Increase of Capital.**—Capital is a growth, and, as a return is exacted for the use of it, capital begets capital, as it were. This makes it far easier for a man who has capital to accumulate more of it than for a man who has no capital to accumulate any at all. “Unto everyone which hath shall be given; and from him that hath not, even that he hath shall be taken away from him.” So intimately is present capital connected with past capital that, as some one has well said, there is not a nail in all England which could not be traced back over eight hundred years to savings made before the Norman Conquest.

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**Literature.**—Mill, *Political Economy*, Book I, chapter x; Spencer, *Principles of Biology*, chapter xii of Part VI; Geddes and Thomson, *Evolution of Sex*, Part IV.

## CHAPTER IV.

## ORGANIZATION OF THE PRODUCTIVE FACTORS

**Early Simplicity.**—The organization of the factors of production, simple at first, becomes on the whole continually more complex with the development of industrial civilization. Differentiation accompanies development. The old household economy was organized in such a manner that the existence of three separate factors in production is scarcely perceived. The same man was owner of land, labor, and capital, and all the products flowing into his hand were distributed by him among those who participated in production according to the manner which he might deem proper. Where production is carried on by a village community we have collective ownership of the instruments, management by a common authority, and a division of products according to regulations based on custom. The products are not divided into parts corresponding to the factors of production, but the same man receives in every case wages, rent, interest, and profits. It is, in fact, only recently, with a new organization of industry which separates these factors and assigns them to different industrial classes, that the factors of production have become commonly recognized as distinct either in production or in the distribution of products. Even to-day this separation is not effected in a large portion of the industrial field, and, consequently, there is not in such industries that antagonism among classes which is elsewhere observed. The American farmer in our Northern states is usually at the same time landowner, capitalist, laborer, and manager, and receives rent, interest, wages, and profits, and in the total product cannot distinguish one from the other.

**The Guilds.**—The old guild organization of industry and commerce united the factors of production in the same man. ✓

The guild of the Middle Ages embraced apprentice, journeyman, and master, and regulated industry and commerce under governmental supervision. The master managed the business, owned the capital, and worked with his own hands. He received the entire product of the business after supporting the apprentices and paying his journeymen. Apprentices and journeymen were, it is true, wage-earners, and conflicts about wages not infrequently arose, although for long periods harmony prevailed, particularly during the best days of the guilds. Labor, it is true, was in a measure separated from other factors, but the separation was by no means complete, and the man who supplied labor looked forward not without reason to the time when he in his turn should become capitalist, employer, and manager. This advance was a regular part of the guild system.

**Growth of Complexity.**—The present century has witnessed a great change in the organization of the productive factors, especially in commerce, manufactures, and transportation. We have a large class that furnishes only labor, another class that furnishes land and capital, and a third class that organizes and manages the undertaking. A modern railway corporation serves as a good illustration. The holders of stocks and bonds furnish capital on which they receive interest; the stockholders carry on the business through managers, and for this service they hope to receive a surplus above interest, called profits; labor is remunerated by wages and by salaries. Land is supplied by the holders of the stocks and bonds, a part of their capital being exchanged for land, and consequently we have rent also, although it does not usually appear as a separate factor. Yet even land when it is leased may appear as a separate factor. No doubt railways in Baltimore and Philadelphia pay ground rents, annual returns for land itself, to those who do not own the improvements. We observe then all these various classes, and perceive that the product or revenues of the undertaking are divided into a corresponding number of portions. It can readily be understood how controversy respecting the amount to be allotted to

the different classes can arise. It is said that the business community is always in debt, because it carries on business with more or less borrowed money. The owner of a business enterprise is an organizer and manager, and receives wages of superintendence, a salary which he pays himself; he receives a return for risk; he pays interest and receives interest on any money he has invested; he pays wages and rent.

**The Entrepreneur.**—The one who manages business for himself was formerly called an undertaker or an adventurer, but the first word has been appropriated by one small class of business men, and the latter has acquired a new meaning, carrying with it the implication of rashness and even of dishonesty. We have consequently been obliged to resort to the French language for a word to designate the person who organizes and directs the productive factors, and we call such a one an *entrepreneur*.

The function of the entrepreneur has become one of the most important in modern economic society. He has been well called a captain of industry, for he commands the industrial forces, and upon him more than anyone else rests the responsibility for success or failure. A business which has achieved magnificent success often becomes bankrupt when, owing to death or some other cause, an unfortunate change in the entrepreneur is made. The prosperity of an entire town has sometimes been observed to depend upon half a dozen shrewd captains of industry. It may be said, then, that the large reward these often receive is only a legitimate return for splendid social services. Such is the case, provided that this reward is gained honestly and without oppression. Sometimes, indeed, their gains are in part legitimate and in part illegitimate. It is this mixture, observed by all in notorious cases, which has probably more than anything else led to indiscriminate attacks on the profits of the captains of industry. It must be added that the mere fact that a man has gained an enormous fortune legitimately, and as a return for social services, does not morally entitle him to use it as he pleases, for morally a man is obliged to use everything he has, himself in-

cluded, for the benefit of humanity, and if he has great power to gain wealth, this but measures the extent of his moral, though not of his legal, obligation to society.

The productivity of industry depends largely upon the harmonious development of all the factors. Sometimes labor is specially needed, sometimes capital, sometimes land; most frequently what is needed above everything else is a better organization of them all. As a whole, organization to-day is defective, and talent for organization and management is unfortunately rare.

**The Division of Products.**—The more efficient all the factors, the greater the product to divide; but the share of each factor will depend upon the industrial strength of the class which supplies it as compared with the industrial strength of those who control the remaining factors. One great element in strength is what we may call “staying-power.” The one who can wait while the other is being brought under the pressure of necessity makes the best terms in the division. It is on this account that labor organizations spring up. Capital being necessarily united under one management, labor seeks to put itself under one management that it may gain like staying-power. An important element in determining staying-power, and thus industrial strength, is the relative rate of increase of the factors. If the labor supply is increasing with relatively greater rapidity than capital, it will be obliged to seek capital instead of waiting to be sought. Labor organization, since it does not directly increase capital supply, cannot in itself correct this difficulty except through its possible influence in restraining undue increase of population. Capital organization enables capital to exploit the unfortunate position of labor. If, however, capital supply is abundant and labor scarce, capital must seek labor, and organization here enables a factor to gain the full advantages of a favorable situation. If the land supply does not keep pace with the growth of the other factors, it can force them to give a large share of the product for rent. Better means of communication and transportation have in recent years enor-



mously increased the available supply of agricultural land, and agricultural rents have therefore fallen. The supply of city land, on the other hand, has not increased equally with demand, and in consequence of this, urban rents have increased enormously all over the world, owners of building sites favorably situated in large cities often obtaining a large proportion of the entire product of the business carried on in buildings erected on such sites.

There are those who claim that the recent concentration of industry, the result of what is popularly designated as the "trust movement," has decreased even urban rents. It is urged that fewer mercantile buildings are needed in proportion as competition in various lines diminishes, and that monopolistic manufacturing concerns are frequently transferred from the large to the small city. It is further argued that the tall buildings, popularly known as "sky-scrapers," have economized the use of land and have further reduced urban rents. Preceding and accompanying this movement has gone an extension of urban rapid transit facilities, which has encouraged suburban residence. The reduction of rents that can be shown in some American cities within the last ten years is remarkable. Cincinnati, in particular, may be cited as an example. Have we here to do with a temporary phenomenon or with one which will long persist? The answer to this question cannot be attempted in this place, but the problem is both theoretically and practically one of the most interesting that now confront us.

**Division of Labor.**—A characteristic feature of the organization of the factors in the present stage of industrial enterprises is what is commonly called division of labor, but which might with equal propriety be called coöperation of labor. Productive processes, especially in manufactures, are divided into minute parts, and one part, or perhaps two or three very small parts, are given to each laborer. Thus, one man makes one little part of a watch, another a second part, and there are so many little parts that to organize properly a watch-making establishment requires the coöperation of at least

three hundred persons. There are sixty or seventy distinct branches in the manufacture of a piano, and as many in the manufacture of a boot. But if there is division of labor, there is equally coöperation of labor. The parts divided must be united to form one whole. When the phrase division of labor is used we look at one side of the process; when we use the word coöperation we are looking at the matter from the opposite side. Division of labor, machinery, and the use of natural powers form the chief part of the explanation of the marvelous increase in the productivity of the productive factors. So great is that increase that one man in our day can accomplish tasks that formerly occupied ten, one hundred, or even a thousand men. When several men work at one completed product in such a way that each individual is employed upon some separate piece of the whole, we have what has been called *complex* division of labor. When, on the other hand, the single process is one which calls for the joint action of two or more men, as in the case of two men hammering the same heated iron, we have what has been called *simple* division of labor.

**Territorial Division of Labor.**—There is one special form of division of labor which has received the name *territorial*. We have already given many instances of this form. Certain Southern states are able to produce cotton at a special advantage; the Northwest has a similar advantage in the growing of wheat; western Pennsylvania finds her most profitable industry in the mines; western New York has certain areas specially adapted to the culture of the grape; Cuba has surpassing opportunities for the raising of choice tobacco; the Philippine Islands are favored by nature in the article of hemp; northern Wisconsin has been a center of an unusually rich timber growth; Alaska is a most fruitful field for gold mining; and so we might extend the list indefinitely. Passing from country to country, we would find the same or even greater specialized local advantages. In all such cases, through the greatly increased facilities for transportation, men of the various sections are able to devote the greater part of their

energies to the products for which those sections are peculiarly adapted. This division of labor, by which industries are specialized in certain localities or nations, we call territorial division of labor. If the different sections compared lie in different nations, the term international division of labor is also applicable.

**Advantages of Division of Labor.**—It will be profitable for us to analyze somewhat closely the advantages of division of labor. First of all, division of labor secures a gain of time. A change of operations by the individual laborer in his work costs time. Under a proper system of divided labor less time also is consumed in learning one's business, as the labor of each is more simple. In the second place, greater skill is acquired, because each person confines himself to one operation and in that becomes remarkably proficient. In the third place, labor is used more advantageously. Some parts of an industrial process can be performed by a weak person, while others require unusual physical strength; some require extraordinary intelligence, while others can be performed by a man of very ordinary intellectual powers. Each one is so employed that his power is more completely utilized, and work is found for all, young and old, weak and strong, stupid and intelligent. Again, inventions are more frequent under a system of division of labor, because the industrial processes are so divided that it is easy to see just where an improvement is possible. Moreover, when a person is exclusively engaged in one simple operation he often reflects on it and comes to understand it thoroughly, and to see how the appliances which he uses could be improved. Laborers have made many important inventions. Finally, division of labor makes possible a better utilization of capital. Each worker uses one set of tools or one part of a set, and keeps them employed all the time. When each laborer does many things he has many more tools, and some are always idle.

**Disadvantages.**—The disadvantages of a division of labor should also be noticed. The system makes it possible to employ women and children, and the proportion of men employed

consequently decreases. Child labor and labor of women often displace that of men, so that in American cities one sometimes finds fathers at home keeping house while children and wives are at work in factories. The home is thus demoralized, and the rising generation is likely to become weak in body and mind and depraved in character.

The dependence of man upon man is increased in the manner previously described, and this is frequently, at least in part, an evil. Moreover, an international dependence arises which occasionally produces intense suffering. The so-called "cotton-famine" in the north of England during the American civil war illustrates this possibility. America grew cotton, England manufactured it, and this seemed to work well until it became impossible for England to secure the cotton supply from our South. The result was intense suffering of hundreds of thousands of working people, who were in no-wise responsible for the distant war.

Laborers are often rendered helpless on the occasion of a change of production, having learned to do only one thing, which is now no longer required, and having become too old to acquire a new skill. Dickens describes evils of this kind in his *Hard Times*.

When labor is rendered simple it often loses both its attractiveness and its educational value at the same time. A man can love his work when he manufactures a whole watch, bearing the impress of care and skill; but who can love the mere routine of raising a sledge-hammer and letting it fall for ten hours a day? M. de Tocqueville, in his *Democracy in America*, attributed the high average intelligence of Americans to the fact that labor, when he wrote, was not so divided with us as elsewhere.

**Remedies for the Evils of Minute Division of Labor.**—Education, particularly industrial training and popular work like that in which Chautauqua is engaged; labor organizations, with their debates and discussions; political life, with universal suffrage; and increased leisure, these are all means whereby the evils of division of labor may be obviated or lessened.

When labor becomes soulless, ceasing to minister to fullness of life, increased opportunities for development outside of the industrial field must be offered. Hours of labor must be shortened, but not necessarily to the same extent in all fields of labor. A clergyman or professor finds opportunities for the harmonious development of all his faculties in his occupation, and the reasons for a short labor day which apply to factory operatives do not exist in his case.

**Increased Productivity.**—The tremendous increase of productive power, due to division of labor, has often been estimated more or less accurately. It has been said, for example, that modern inventions and discoveries in the great civilized nations have rendered possible and actual a productive power for each family of five persons equivalent to the labor of sixty slaves in classical Athens. Now the civilization of Athens was based on slavery, and it is estimated that there were twelve slaves to a free Athenian family. Natural forces, therefore, if we may accept this estimate, do for us five times as much as slavery did for the classic city.

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**Literature.**—Wright, *Practical Sociology*, chapter xiv; United States Department of Labor, thirteenth annual report on "Hand and Machine Labor."





PART III  
TRANSFERS OF GOODS



## CHAPTER I

## INTRODUCTORY

TRANSFERS of goods are of two kinds. They may be either one-sided transfers, as in the case of taxes, inheritance, gifts, bequests, and fines, or they may be two-sided transfers, as is the case with nearly all the economic transfers with which we have to do.

Transfers of goods constitute a large part of our economic life. The business of one important industrial class, called merchants, consists in effecting such transfers. The operations in which merchants are engaged we call commerce. But commerce requires a multitude of other businesses to assist it, among which are especially prominent the means of communication and transportation, such as public roads, canals, railways, telegraphs, telephones, and banks. These agents of commerce do not confine their functions to the assistance of merchants, but they aid the entire community in bringing about desired transfers of goods.

**Exchange.**—The part of political economy which deals with transfers is usually called exchange, because by far the greater number of transfers are two-sided, and it is with these two-sided transfers that we are especially, though not exclusively, concerned in the chapters which in the present work are placed under the title "Transfers of Goods." Taxes, the chief kind of one-sided transfers, are more conveniently treated under the topic of finance, while bequest and inheritance may be better discussed under distribution, which is so powerfully affected thereby. Money and banks, however, which are treated in the present part of this book, are agencies for assisting in one-sided transfers as well as two-sided transfers of goods.

**Utility.**—First of all in discussing the subject of exchanges

we have to do with utility, and it will therefore be well to repeat what has been said in other parts of this book, and to add to it certain considerations which we must bear in mind in studying the principles of exchange and of value. Utility means a power to satisfy a human want, or it may mean the quality of an object which satisfies the want. And here we may pause to repeat that it is still a utility whether the want which it satisfies be a censurable or a commendable one. Men often want many things which they were more truly happy without. Tobacco and whisky satisfy wants as certainly as do wheat and shoes, although those who want the former would in most cases be healthier and happier were the wants unsatisfied.

To proceed to an analysis of our wants, we may say that we have first of all a desire for such things as air, sunshine, and water. But all of these are usually so abundant that we are scarcely conscious of our vital need of them. They are unlimited in quantity or amount, and are supplied to us without effort on the part of ourselves or of others.

A second class of wants includes all such good things as esteem, friendship, love, respect, and spiritual contentment. Now these do not usually exist in such abundance as we would wish, and we do have to put forth effort to acquire them. But we feel at once in thinking of them that they are not economic goods. No one ever speaks of them as being exchangeable, nor do we ever think of comparing them with things having economic value, excepting in such figurative expressions as "A good name is better than riches." The wants which we feel for love and friendship are not economic wants.

The third class of wants includes those which we call economic. The things which we want exist in quantities so limited that some wants are left unsatisfied, and usually require effort of one sort or another to obtain them. Moreover, they are commonly exchanged. It is with the satisfaction of this third class of wants that value has to do. The things that satisfy these wants have both utility and value.

This analysis, then, brings us to the idea of value, and gives



us one difference between value and utility. We have seen two large classes of things which possess immeasurable utility, but which do not have value, in the economic sense of the word. We have said immeasurable utility, and the very fact of the utility being immeasurable or unmeasurable helps to distinguish such things from things having value, for things having value possess measurable utilities. We measure such utilities a thousand times a day, usually in terms of money.

But the difference between value and utility is something more than this. What is it that gives value to some things, while other things are not said to have value? One of the most common answers to this question is that labor gives things their value. But careful thought will show that this answer is unsatisfactory. We do not care for things simply because they have cost labor. Men do not pay tens of thousands of dollars for the paintings of Rubens or Murillo because those paintings cost labor. It is not because a piano has cost labor that it has value for me. When we examine the matter closely we find that the order is exactly the reverse. Labor was put upon the piano because a manufacturer, judging from well-grounded experience, believed that it would have a certain value. If piano manufacturers should make a mistake and should produce so many pianos that the value would be less than had been calculated, the labor expended upon them would either not be properly requited, or would have to be paid from the value of other goods.

Professor Knies has claimed that it is merely a fallacy of logic to contrast value and utility, as we have done in the cases of the first and third classes of goods. We have said that water is useful, but, because unlimited in quantity, not valuable, while iron is both useful and valuable. Professor Knies says that in this case we are unconsciously confusing terms; that when we say water is useful, but not valuable, we are thinking of the entire quantity of water, or of water generally, while when we say that iron is useful and valuable we are thinking of limited portions of the entire quantity. So when we say that iron is more useful than gold we have in

mind the entire stock of each metal, but when we say that gold is more valuable than iron our thought has passed from the general to the special, and we are now thinking of equal quantities by weight or bulk.

Professor Knies has undoubtedly called attention to an actual fallacy of thought which is very common, but even when we make the necessary correction we shall find that the distinction between utility and value still exists. For the explanation of value, as it is understood to-day, we are indebted to Professor Jevons, of England, and to the Austrian economists, who have been laboring in this field during the last quarter of a century and more. It is fortunate for the English reader that the work of these last-mentioned writers has been explained by Professor William Smart, of Glasgow, Scotland, in a volume bearing the title, *An Introduction to the Theory of Value*. Moreover, some of the original books have within recent years been translated into English.

Value, as we have seen, depends upon wants. But, as we have also seen, value is often low when utility is very great. In general the two rise and fall with very little, if any, reference to each other. There is plainly a connection, but just as plainly a difference. The connection is so apparent that we need not dwell upon it. The difference remains to be explained.

Let us consider again the illustration of water. Physical scientists tell us that the quantity of water on the earth's surface is in one way and another very slowly but gradually becoming less. Suppose, then, that after the lapse of millions of years only enough water remains to satisfy the thirst of the inhabitants of that day. Manifestly, they will not use any part of the water for such purposes as lawn sprinkling, and they will be driven to some expedient to take the place of bathing as we practice it. In such a case the utility of the water will be the actual saving of life, and therefore impossible to estimate. Such utility Professor Patten has called absolute utility, indicating by the word absolute that it cannot be compared, except in thought, with any other utili-

ties. If it were to be exchanged for anything else, life itself would cease.

Move backward now the hand of time, and consider a period preceding that which we have just been contemplating. The water will still be limited, but there will be a quantity sufficient, let us say, to admit of bathing. The utility of any portion of the water will be just as great as in our first illustration, but no greater. It will satisfy life. True, the whole body of water will possess greater utility, but it is not that of which we are speaking. What, then, will measure the value of any portion of the water? Men will not dwell in their valuations upon what the existing supply will do for them, but upon the satisfaction which might be obtained from an increase. Thus we may imagine a man of that time saying: "There is water enough to drink, and enough for personal cleanliness, but if there were a little more, I would like to use it for sprinkling my lawn." What valuation, then, will he place upon a definite portion of water? It might seem, as it has seemed to many, that the value will be determined by the last want satisfied by the water. But the author believes that this answer is incorrect, though, so far as the practical measurement of the value is concerned, the error is a slight one. Rather will our imaginary earth-dweller measure the value in such a case by the intensity of that want which with the existing supply he finds just beyond the reach of satisfaction. If that want be lawn sprinkling, then to him the value of any portion of the water will be measured by the satisfaction which he would experience from seeing his lawn look bright and fresh.

If we imagine time to roll backward, we shall see men gradually satisfying more and more wants, but always wants less and less intense, until we come to a time when man has no want for water which cannot be satisfied. There is no want calling for satisfaction, and consequently there is no value in any increment or increased portion of supply. But as one portion of the supply will have for him the same utility as has any other, he will place no value upon water at all. And thus,

after our long journey in time, we have traveled backward to the present. At one extreme of our journey we have found water so valuable that it could not be measured, and now on our return to the present we find water without value, though all along our way its utility has kept on increasing.

One or two further illustrations from a condition of things which is more real to us, and we shall be prepared for a definite statement of a law of value. Dutch East India merchants are said to have occasionally dumped into the sea a part of the cargo in their ships, which were returning loaded with Eastern spices. They had learned that with the existing supply in the market for which they were bound, their cargoes, if all were sold, would prove an unprofitable venture. Why? Because the good burghers of Amsterdam would find the stock of spices so large that they could not use it all. They would value any portion of the spice by the satisfaction they would lose in foregoing the use, and, the amount being so great, the intensity of the desire and of the satisfaction would fall almost to the vanishing point. The merchants, therefore, rather than confer so great a benefit upon their fellow-burghers, would heave overboard a part of the cargo, and the unsatisfied wants of the citizens would be sufficiently intense to create a profit-paying value for the products of the East.

The author has a friend who relates that he has seen his neighbors carrying away to a creek-side load after load of potatoes, there to lie and rot. So great was the supply of potatoes in the market for which they—these neighbors—had been laboring to produce, that the *marginal utility* of potatoes had sunk to zero. The labor of removal had to be incurred, not for a positive advantage, but for the negative one of preventing the danger to health which would have existed in the near presence of the decaying vegetables. Surely, in this case the labor expended did not measure nor create the value, or rather lack of value, of the product.

These illustrations will have prepared us for the definitions which follow. *The total utility of a commodity is measured by the intensity of all the wants that it satisfies. The value*

*of a commodity, on the other hand, is measured by the intensity of the want which the existing supply of the commodity leaves still unsatisfied.* Having in mind the consideration, that unsatisfied wants always take the form of desires, we may define utility and value thus: *Utility is the capacity to satisfy wants; value is the capacity to excite desire.*

Thus far we have been speaking of the value of any unit of a commodity. The total value of the commodity, it will readily be understood, is equal to the number of units multiplied by the value of a single unit, since, according to what has been called the *law of indifference*, no unit of any commodity will have a greater value than any other unit, assuming equal utility.

Certain other definitions remain to be given. *Wealth is an aggregate of economic goods.* When we estimate wealth according to values, there may be two statements of national wealth, which are directly opposed one to the other. Goods may be abundant and values low, or goods may be scarce and values high. The result in either case may be the same amount of value, though obviously the total utility is much greater in the first case than in the second.

*Economic well-being is an aggregate of utilities.* In other words, it is an aggregate of *satisfied desires*, not at all an aggregate of *values*.

*Price is an expression of value in terms of money.* When we say that a certain hat is worth three dollars to us, we mean that the marginal utility of the hat—that is, the satisfaction which we would miss without the hat—is at least as great as the marginal utility of the three dollars—that is, the satisfaction of which we would deprive ourselves if we parted with the three dollars.

**Elementary Value, Form Value, Place Value, Time Value.**  
—Writers on political economy have distinguished various kinds of value, of which the following are specially important: elementary value, form value, place value, time value. The first term refers to value of raw material, or fundamental elements. It is with the production of this value that agriculture



and other branches of extractive production, like mining, are concerned. Form value is due to form and shape given to raw material. It is this kind of value that manufacturers produce. Time value and place value are values due to the fact that goods are in the time or place where needed. It is the merchant who produces these kinds of values. He adds properties to goods; namely, the property of being in the right place and of being there at the right time.

Values in exchange are merely relative, and consequently there can be no such thing as a general rise or fall of values in this sense. Let us suppose that to-day two bushels of wheat exchange for three bushels of oats, and to-morrow for four. We may say that wheat has risen in value, but it is obvious that exactly in the same proportion oats have fallen in value.

**Demand and Supply** are expressions constantly used in political economy as well as in practical life. It is said that demand and supply regulate price, but clear ideas do not usually accompany this expression. Supply and demand are constantly varying quantities of things. An increased demand may lead to increased supply, but, on the other hand, an increased supply not infrequently goes ahead of actual demand and increases demand. The supply at a given moment may be a fixed quantity, but what is the demand? It is defined as being desire accompanied by purchasing power. Thus one may want a thing never so much, but if he have not the power of purchasing it, he cannot at all increase the demand for that article or service. This demand fluctuates continually. At one price demand may fall far short of supply; at another price it may far exceed supply and eventually bring about an increase in supply. Demand and supply tend to equality, and this tendency operates through price. Prices are lowered and raised in such a manner that a rough kind of equilibrium between supply and demand is brought about.

**Forces Which Influence Demand and Supply.**—But there are all sorts of forces at work back of demand and supply, making these what they are. Anyone who stops at demand and supply as a final explanation has failed to go below sur-

face phenomena. Laws and customs all affect demand and operate on supply. Has religion anything to do with demand? Certainly. Thanksgiving Day increases the demand for turkeys, and Easter increases the demand for eggs. Religious holidays also affect the labor supply. These holidays were so numerous in Brazil some years ago that the national economy was injuriously affected, and through the efforts of the emperor they were greatly reduced in number. Labor organizations and other organizations of productive forces try to regulate supply and demand in a manner beneficial to themselves, and this is often, though not always, in a manner beneficial to the general public. To withhold supply for a time from those demanding it tends to raise prices, while to press it upon them leads to "slaughter prices." What we may technically call an "urgency" of supply and "urgency" of demand are then important elements in determining prices. Fashion suddenly increases and as suddenly decreases demand, and by its rapid changes produces general economic loss. Inheritance and bequest affect demand and supply through their action on the distribution of wealth. Indeed, the same is true of the effect of all laws concerning property. When the great bulk of national resources is widely distributed so that many have a competence, while but few have great wealth, the demand for commodities and the supply of commodities to satisfy this demand will both be of a very different character from the demand and supply of a place or period in which a large proportion of material wealth is in the hands of a few. In the former case there will be a large production of comforts and conveniences with resulting general well-being, as in the best days of the Roman Republic, while in the latter case there will be wanton luxury, laboriously supplied, as were the feasts of the Roman emperors, by searching sea and land for things difficult to obtain. This wanton luxury in Rome, so finely satirized by Juvenal, was accompanied, as it must ever be, by loose morals and decay of civic virtues, while the magnificence of the few contrasts vividly with the beggarly wretchedness of the depraved masses.

Back of demand and supply lie other forces which must be taken into account. Disposable surplus must be considered, since the amount one *will* pay for a commodity or service must depend in part upon the amount which one *can* pay. Again, we must carefully study the elements of thrift, industry, and intelligence which increase demand, but which at the same time, by application and by improvement, increase supply with less actual outlay of economic goods for the attainment of a given result.

**Cost of Production.**—When production of commodities can be indefinitely increased, as is the case with cloth, stoves, manufactured articles generally, and also agricultural produce, the cost of production is the factor among those acting on the surface of industrial society—that is to say, leaving out the deeper causes—which, apart from temporary fluctuations, regulates price. There is a price which will recompense the various productive factors. Production is carried on so long as that price for commodities can be obtained. If demand for any commodity admits at any time of a higher price, this is followed by increased production, *provided always that the movements of labor and capital are free with respect to the branch of production concerned*, and so far as labor and capital are thus free to move. If price falls below the point necessary to remunerate the factors, production will fall off, *provided that capital can be withdrawn from the pursuit without large proportional loss*. Leaving out of view deeper causes, we may say, then, that the price of freely produced goods depends immediately on demand and supply, and secondarily, and in the long run, on cost of production, provided we have free competition—that is to say, provided that the flow of labor and capital is unobstructed.

The reconciliation of this explanation with the marginal utility theory lies in the fact that cost of production in these cases determines what wants may be satisfied and what wants must remain unsatisfied, and thus gives us a point of marginal utility. If cost of production falls, supply will increase and marginal utility will fall. We thus find that for practical

purposes we may say, in the case of freely produced goods, that cost of production determines value, although, scientifically speaking, the final cause of value is the quantity of utility attributed to the most intense want left unsatisfied by the supply at any time existing.

**Freedom of Competition.**—But we must observe this phenomenon, that precisely at the present time, owing to combinations, and owing to the growing importance of monopolies in an ever-increasing proportion of the industrial field, the movements of labor and capital are not free. We have then in such cases monopoly prices, prices which do not depend on cost of production, but which are fixed at the most remunerative point. If price increases, demand falls; if price is lowered, demand increases. Intelligent monopolists will fix prices at that point which will yield the largest net returns. A great fall in the prices of service rendered by monopolists—street-car corporations, for example—will often be followed by such an increase of demand for services that net returns will increase. This fact brings about limited but insufficient control of monopolies.

**Social and Individual Cost.**—Cost of production must be viewed in two aspects: the social and the individual. The cost of production to society consists in the totality of its efforts and sacrifices; to the individual producer it consists in what is paid for these efforts and sacrifices. What is the cost to society of a house? It is the days of labor and the materials used, with wear of tools and implements, or, in other words, the services and things which have been consumed. These are real wealth, and society has suffered a loss unless at least an equivalent amount of utility is represented in the house. These services and things have been diverted from other possible uses. The individual cost to me, if I purchase the house, is what I pay for it—say five thousand dollars,—but society is neither richer nor poorer because that sum of money has been transferred by me to a builder. That is an individual transaction. Social cost is what Adam Smith calls the “real cost” of production.

**Fair Price.**—A conception of fairness is powerful in its influence upon prices. During the Middle Ages the Church and also the public authorities attempted to regulate all prices by ideas of fairness. Fair price—*justum pretium*—was the economic topic which was perhaps most discussed for centuries, and in the writings of the most renowned of the philosophers of the Middle Ages, Thomas Aquinas, we find fair price treated with great learning and in all its details. Excommunication was not regarded as too severe a penalty for violations of fair price. Even to-day, as has been stated in another place, Irish land courts fix fair rents. And even to-day city authorities and state authorities fix fair prices for many services, such as the street railway service, gas, and railway transportation of goods and passengers. When public authorities furnish commodities and services they try to fix price by considerations of fairness. Similarly, university trustees try to pay fair salaries to college professors, and the fees charged by lawyers and professional men are discussed with reference to their fairness, being pronounced by public opinion now fair, now unfair.

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**Literature.**—Clark, *Philosophy of Wealth*, chapters v and vi; Hobson, *Economics of Distribution*; Marshall, *Principles of Economics*; Smart, *Introduction to the Theory of Value*; von Böhm-Bawerk, *Positive Theory of Capital*; Ely, *Monopolies and Trusts*.



## CHAPTER II.

## MONEY

THERE are three different conceptions of money—the popular, the legal, and the economic.

**The Popular Conception.**—What do people mean in everyday language when they use the word money? Careful attention to usage shows that they apply this term to anything which freely passes from hand to hand as a medium of exchange, and also is, as a rule, received in payments of debts. We have here two separate functions, but it is probable that in modern times popular language would not apply the term money to anything which did not have both of these functions. This gives us then the following definition of money in the popular sense: *Money is whatever passes freely from hand to hand as a medium of exchange and is generally received in final discharge of debt.*

**The Legal Conception** is different. *Whatever the law declares a legal tender is money in the legal sense.* A legal tender is that which, in the absence of contracts to the contrary, the law compels persons to receive in payment of debt.

**The Economic Conception.**—But political economists have framed still a third definition of money, which expresses what we may for lack of a better term call the economic conception. Money in the economic conception must perform four functions, which will be discussed in the following sentences. First of all, it must serve directly and immediately as a measure of value. But value measures value as length measures length. We must take as a unit a definite concrete value like that of our gold dollar, which consists of 25.8 grains of gold, nine tenths fine—that is, nine tenths pure gold and one tenth alloy. When, now, we say that a commodity is worth nine dollars, we mean that its quantity of value is nine times that of our

“unit of value-measurement.” Consequently money in this sense must be composed of material which is in itself valuable. In the second place, money must serve as a medium of exchange. This is the principal function of all kinds of money. Commodities are not usually exchanged directly for one another, but indirectly through the medium of money. The farmer selling his corn for money, and with this money buying sugar, really exchanges corn for sugar, the money serving merely as a convenient medium. In the third place, money in the economic sense must serve as a means of making payments, and this is usually facilitated by having a legal-tender quality attached to it. Payments are often one-sided transfers of goods, and on that account the third function differs somewhat from the second. A fourth function is recognized, which is that money in the economic sense must serve as a store or receptacle of value. It must store up value so that it can be transported from place to place and transferred from time to time. Roman gold money, preserved for two thousand years, has brought value down to our own time; and gold money taken across the Atlantic bears with it stored-up value. We have then the following as our formal definition: *Money, according to the economic conception, must first serve directly and immediately as a measure of value; secondly, it must serve as a medium of exchange; in the third place, it must be capable of serving as a means of making payments; and fourthly, it must be a store or receptacle of value.*

These distinctions render it easy to answer otherwise perplexing questions. Are national bank-notes money? In the popular sense, undoubtedly, but not in the legal sense nor in the economic sense. Are “United States notes” money? Yes, in the popular and legal sense, but not in the third sense. Gold money in the United States is money in every sense of the word.

**Advantages of Money.**—Money has been called one of man’s greatest inventions, ranking with the alphabet. Certainly present civilization would be impossible without it. Its services are so obvious, however, that it is not necessary to

dwell upon them. The reader has only "to look and see." Exchange would be awkward and tedious without money, and now that labor is so divided, exchanges form a part of our daily life. We enjoy few material good things which have not been exchanged in one way or another many times before they reach us. Without any medium of exchange the man with a horse who wanted a coat instead would be obliged to hunt for a tailor who desired a horse, and even after finding him the exchange would very likely be defeated in his object, owing to inequality in values of the articles to be exchanged. The coat desired might be only half as valuable as the horse, and the tailor might have nothing else which was wanted by the owner of the horse. Simple illustrations like this might be multiplied indefinitely. We can also keep values easily in mind and compare them readily when we have one common measure. Money enables us to travel, carrying stored-up value with us, and assists in the accumulation of capital by providing, as it were, a receptacle for it. If we raise more potatoes than we need, we can keep them only a short time, but we can exchange them for money, which can be kept, and thus we save our surplus. Money is a form of capital which has been called free. It can by exchange be turned hither or thither, being ready for the best use which may offer.

**Qualities Desirable in Money.**—Many things have been used as money during the world's history. Among them may be mentioned the following: cattle, nearly everywhere; furs, especially in northern countries; oil; wampum, among the early New Englanders; tea, at Russian fairs; tobacco, as in Maryland and Virginia; iron; copper; all the baser metals; and the two precious metals, gold and silver. Among all the metals, gold and silver have in civilized nations been found best adapted for money, and they are so used to-day in every part of the globe. But, in this general struggle for existence, if we may use this figurative expression, gold has seemed to show a special fitness, and thus bids fair to survive as the money-metal *par excellence*. Nevertheless, silver is still everywhere used in large quantities, but generally, among advanced

nations, it occupies a subordinate position. There are several reasons why gold and silver are especially suitable for money-metals. They are universally desired, and everyone is therefore willing to accept them. They can be used not only in the arts, but for ornaments, and this helps to give them stability of value, for if their value begins to fall, the demand for them for other purposes than money tends to increase, and this prevents so great a fall in their value as would otherwise take place. Gold and silver are desirable as money on account of the vast quantities already in existence. The gold in coin and bars and the silver in coin are now estimated to be worth between eight and nine thousand millions of dollars, and compared with this the yearly production is small, amounting at present to about four hundred millions of dollars. The production of one mine in one year, even if extraordinarily large, produces a comparatively small effect. The high specific value of gold and silver—that is, their high value in proportion to weight—adapts them to use for money, because it renders great value easily transportable. Their value at different places widely separated is thus more nearly equal than it could otherwise be. Their durability and indestructibility are also valuable qualities, while their extreme divisibility without loss of value makes it possible to measure any desired value, great or small. Their malleability renders coinage easy, and their homogeneity makes any one ounce or pound just as valuable as any other ounce or pound. Moreover, they are readily recognizable by their color, their peculiar ring, and by other attributes, and thus they are adapted to popular use. No other metals seem to combine in like measure so many desirable qualities.

**Paper Money** has been extensively used. Paper money consists of promises to pay on demand, which people are willing to receive in place of metallic money. They are usually promises either of banks or of governments. People take them because they believe the promise will be kept, or because they think that others will accept them, or because they have been made a legal tender, and people must therefore accept them for

debt, unless otherwise specified by contract, or because, as is the case with most kinds of paper money, they are receivable for taxes. Where this confidence in paper money is complete, such money is preferred to precious metals, because more convenient. If anyone will read all that is engraved on the paper money circulating in the United States he will perceive its nature, and he will discover that it is of two general kinds: notes of national banks and notes of the federal government, with, however, several different species of the latter. Adam Smith has compared paper money to a road through the air. It saves the use of the precious metals, and thus capital, which would otherwise be employed as a medium of exchange, can be used for other productive purposes. It is thus, he says, as real a saving as if we could travel through the air and use for agriculture and other purposes the ground now occupied by roads. The old "greenbacks," or the United States notes, now amount to over three hundred and forty-six millions of dollars. They perform some of the functions of gold and silver even better than do gold and silver themselves—in foreign ports, like Hamburg, often selling for a premium—and thus save the country this amount of capital. To withdraw them from circulation would be simply a waste, unless they have harmful effects partly or wholly counterbalancing the advantages cited.

**Inflation.**—Certain dangers which are connected with paper money issued by government must not be overlooked. It is easy to set the printing-presses at work and to issue an unlimited amount of money. This is, apparently at least, much easier than taxation, and the temptation thus offered has often promoted waste and extravagance. Besides, only a limited amount can be kept in circulation at its nominal value, and when this amount is exceeded the paper money falls below "par," which means that paper money will no longer purchase as much as will the same amount of gold and silver money. Such depreciation produces great inconvenience and suffering, because, by a process which we cannot stop to consider, the inferior money drives the better out of circulation,



and prices rise, as expressed in terms of the depreciated money. This diminishes the value of fixed salaries, of all fixed incomes, of interest-payments on all debts, and of wages. True, salaries and wages tend to rise again to the old level, but the rise is a slow one at best, and meantime the standard of living is likely to be so reduced as to impair the economic efficiency of the wage-earner. Inflation, with the resulting depreciation of money, is an inconvenience in the international trade, because one nation does not recognize the legal tender quality of another nation's paper money and will not receive it for taxes, and because foreigners lose faith in a paper money which is not kept at par with the precious metals.

**The Amount of Money Needed.**—The question has often been asked, How much money does a country need? And the answer has sometimes been given, "It makes no difference how much money there is. If the supply is abundant, prices will be high; if the supply is small, prices will be low and the same amount of money will go further. A little money will do the work of money as well as a large supply." It is true that there is a relation between the supply of money and its value, although this relation is by no means simple, but rather extremely intricate; and it is true that, other things being equal, large supply means small value, and small supply, large value; but the conclusion which was drawn from these facts in the above answer does not follow from the facts themselves. When the amount of money is small, barter is always extensively used, and this is an inconvenience, obstructing trade and causing loss. There should be a sufficient stock of money to effect all those ordinary transactions of life for which credit instruments are not readily available, and to enable us to avoid any extensive employment of barter. But one of the most common business transactions is the payment of wages. Money should exist in such quantities that it will not be too valuable to use for that purpose; in other words, the day's labor of an ordinary laborer should not be inferior to the value of a piece of legal tender coin which can be conveniently carried. We need, then,

money in such quantities that the value of a coin of convenient size shall not exceed a day's wages of an unskilled laborer. But it is desirable that money should be still cheaper, so that wages may be divided into parts. It is not necessary for money to be cheap enough to enable us to make our smallest purchases with full legal tender money, since in addition to full legal tender money all countries have subsidiary coins, like our fractional parts of a dollar. These contain less coin in proportion to their nominal value than do the full legal tender coins, and are legal tender only for a small amount—in the United States, for instance, only for payments up to ten dollars. There are also minor coins, such as our "nickels" and "coppers," which are legal tender for still smaller amounts—with us, for instance, they are legal tender only up to twenty-five cents. Silver dollars fulfill the conditions laid down as to convenience for wages, but gold does not. Gold is more convenient for large payments. The two supplement each other.

**Fluctuations in the Volume of Money.**—The grounds just given for the need of a certain amount of money, to be determined by circumstances, are not the only considerations to be kept in mind in determining the amount of money required by a country. After the above requirement has been satisfied it may make comparatively little difference whether we have much or little, but it makes a great deal of difference whether we increase or decrease the amount. It is not the "much or little," but it is the "more or less," that is of vital concern. Few things produce more intense suffering than does a marked increase in the value of money. This is on account of the strong tie which connects past, present, and future in our economic life. He who treats every economic question as if every day were a period of time apart by itself has scarcely taken the first step toward the comprehension of economic society. Obligations have been incurred in the past which are payable in the present or in the future. Now, to decrease the amount of money, other things remaining equal, raises the value of every debt and adds to the burden of

every debtor, public and private. It increases the value of notes, mortgages, railway bonds, and local, state, and federal bonds. It enriches the few at the expense of the many. An increase in the amount of money, if it is small, does not have the reverse effect, because on account of the growth of wealth, the continually diminishing use of barter, and the extension of trade into countries formerly outside of international commerce, and the opening up of new countries in Africa, Australia, and elsewhere which need a supply of money, the value of money tends to augment unless there is at the same time a growth in the supply. If the amount remains stationary, while, as always happens in a growing society, the demand increases, the creditors are enriched at the expense of the debtors. On the one hand, if the amount of money is arbitrarily increased, so that the value of all debts falls, it amounts to virtual robbery of the creditors. When, on the other hand, the amount of money is decreased arbitrarily, it amounts to virtual robbery of the debtor class.

The late President Walker reached the conclusion that while it is dangerous to increase the supply of money arbitrarily, as by the issue of paper, it is a fortunate thing if the amount of money slowly and continually increases without direct governmental action, as, for instance, through the discovery of new and more fruitful gold mines. His reason for this is that the business community is always a debtor community, while the idle classes are creditors, and that a slight depreciation in the value of money which results from natural causes, and which consequently does not destroy confidence on the part of capitalists, gives a "fillip" to business and makes it prosperous. It may also be urged that with the progress of improvements in industry prices tend to fall, and that unless money increases in amount those who take no active part in these improvements nevertheless gain the benefit of them.

But, on the other hand, there are, in addition to the quantity of money, so many forces at work which determine its value that the relation between the two is by no means a close one. Credit is the main instrument of exchange, and anything

which impairs confidence so shrinks the volume of credit that it produces a stringency in the money market and gives money high value. The debtor is quite as much interested as the creditor in honest money, and above all things should discountenance any measures calculated to impair confidence.

**Silver Question and Bimetallism.**—The discussion of the amount of money needed by a country naturally brings us to two topics, called the *silver question* and *bimetallism*. Silver and gold are both used as money, and as government coins them it determines the ratio at which it will do this. A ratio which has been commonly established is fifteen and a half to one, which means that in full legal tender coins one ounce of gold is considered equal to fifteen and a half ounces of silver. This is the general European ratio, but the United States has established the ratio of approximately sixteen to one. The European ratio was maintained for about seventy years during this century by the action, first of France, and then of a combination of countries called the *Latin Monetary Union*, in which Belgium, France, Switzerland, and Italy were most prominent. These countries opened their mints freely to both gold and silver, and coined money at the ratio of one to fifteen and a half. Everyone who had gold or silver could have it changed into money. About 1873, however, Germany, which had formerly used silver, determined to replace it with gold, and thus threw an immense amount of silver on the market, while the demand for gold was correspondingly increased. Other countries, including our own, also demonetized silver, or, in other words, stopped the free coinage of silver, and thus made it only a subsidiary money, instead of a full legal tender, as it had been. Like Germany, we introduced what is called gold *monometallism*. Gold alone was henceforth to be converted into coins for anyone who offered it to our mints. This action alarmed the countries of the Latin Union, and they too suspended the coinage of silver. To add to the confusion, large discoveries of silver had increased considerably the supply of that metal, and the old ratio was quickly destroyed, silver falling so much in value as measured in

gold that to-day it requires about thirty-five ounces of silver to purchase one ounce of gold. The market ratio of the metal in the coins averaged 34.44 to 1 in the fiscal year 1900. All this naturally increased the value of money, and thus, incidentally, the value of all debts, and produced great distress in Germany and in other industrial lands. But the increase in debts was only a part of the mischief. Oriental and South American countries use silver, and trade was easily carried on with those countries as long as gold and silver would readily exchange at an established ratio, but when the ratio began to fluctuate, an uncertain and demoralizing element was introduced into trade which rendered it highly speculative, and entailed loss upon the business world. The merchant in Liverpool who sold goods to a merchant in India agreed to receive a fixed sum of silver money, but in England it was necessary to turn this silver into gold, and a fall in the value of silver during the progress of the transaction might bankrupt him.

Bimetallism has been proposed as a remedy. This means that government must coin at a fixed ratio all gold and silver which anybody desires to have coined. One country alone cannot introduce bimetallism, because other countries might send to it all their silver and take away its gold, just as Germany evidently contemplated draining France of at least a large portion of her gold. Experience seems to demonstrate that national bimetallism is out of the question, and no scientific economist favors it. Economists were at one time inclined, however, to favor what is called international bimetallism. International bimetallism means bimetallism based on an international agreement like that which obtained in the case of the Latin Union before 1874. It was urged that all countries should agree to coin gold and silver at the ratio of one to fifteen and a half. It was believed that if the principal commercial countries of the world—let us say, France, Germany, England, and the United States—should enter into such an agreement, the ratio could be maintained. Gold and silver are used principally for money, and owners



of gold and silver would be obliged either to have it coined at the government ratio or sell it on the market for use in the arts. The arts absorb only a small proportion of the annual product, to say nothing of the enormous existing supply of gold and silver in the world. Governments, then, are in the position of monopolists, and by agreement could maintain a fixed ratio. The advantages of this would be to insure a more adequate supply of gold and silver and to facilitate business transactions between gold-using and silver-using countries.

It would take us too far from our general survey to go into the details of recent monetary history, and space is not adequate for anything more than the briefest statement of a few main facts calculated to elucidate our present situation.

First, it must be observed that for some twenty years there was an agitation in favor of international bimetallism both on the part of theorists of repute and of practical statesmen. Several international monetary conferences, supported vigorously by the United States, have been held, of which the most noteworthy were the Paris conference of 1878 and the Brussels conference of 1892. Nothing whatever has come of these expert discussions. The quiet opposition to the plans has been more potent than the activity of the bimetallists. England has led the opposition, and this is undoubtedly due in part to her powerful position as a creditor nation. In the meantime action of various sorts has been tried by our own country. First, we had the Bland-Allison Act of 1878, which provided that not less than \$2,000,000 worth of silver and not more than \$4,000,000 worth should be purchased every month by the United States, and coined into full legal tender silver dollars at the ratio to gold of sixteen to one. The Treasury in every case purchased the minimum amount, the total coinage up to 1890 amounting to \$378,166,793. This did not keep up the value of silver bullion, and failed to satisfy the adherents of silver, who demanded free and unlimited coinage of that metal. As a compromise measure, but one which was regarded as distinctly favorable to silver, Congress in 1890 passed what has been known as the Sherman Act.

**The Sherman Act.**—By the terms of this act the Secretary of the Treasury was to purchase monthly 4,500,000 ounces of silver bullion at market value—so long as the price should not exceed one dollar for 371.25 grains of pure silver—paying therefor with notes of the Treasury. It was also provided that the treasury notes should be redeemed on presentation in gold or silver coin at the discretion of the Treasurer, and that they should be “legal tender in payment of all debts, public or private, except where otherwise expressly stipulated in the contract.” The bullion was to be coined at the rate of 2,000,000 ounces per month until July 1, 1891, after which coining was to cease, and the bullion to be stored in the Treasury vaults.\* In accordance with the provisions of the law there was purchased, first and last, 168,000,000 ounces of silver, of which 28,000,000 ounces were coined into \$36,000,000. Treasury notes to the amount of \$156,000,000 were issued in payment.

**The “Endless Chain.”**—In the meantime, by action of the Treasury Department, but without express action of Congress, there had been established a gold reserve of \$100,000,000 for the redemption of “greenbacks” when presented. The Sherman Act gave us the so-called “treasury notes,” redeemable “in coin”—that is, gold or silver, as has just been explained. But if the parity of all kinds of money was to be maintained and a depreciated currency avoided, it was deemed necessary to give gold for the treasury notes if demanded; and it was expressly declared that parity was to be maintained.

There were, therefore, now two issues which were practically redeemable in gold from the national Treasury. Within a year after the passage of the Sherman Act there began in the summer of 1891 one of the heaviest exportations of gold that have occurred in our history. To obtain the gold for exportation “treasury notes” and “greenbacks” were presented to the Treasury and were there redeemed in gold. Under this pressure the gold reserve rapidly diminished. The year 1893

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\* It was, however, provided that after July 1, 1891, so much should be coined “as might be necessary to provide for the redemption of the treasury notes authorized to be issued by the same act in payment of said bullion.”

saw a renewal of heavy exportation, and it became evident that the regular gold reserve of \$100,000,000 would soon be broken into. It was held to be a question whether treasury notes should be redeemed from this special reserve which had been intended to provide security for redemption of the greenbacks. Secretary Carlisle finally announced that he would redeem treasury notes in gold under any and all circumstances, but it was not until a rumor had gone out from Washington that gold payments on treasury notes were to be discontinued. At this critical time the government of India demonetized silver, and the price of silver fell inside of three days from eighty-two cents to sixty-seven cents an ounce. This combination of circumstances led to a special session of Congress in the summer of 1893.

**Repeal of the Sherman Act and the Issue of Bonds.**—After a prolonged and bitter fight a bill to repeal the purchasing clause of the Sherman Act was passed. But the withdrawal of gold did not cease. For the time being there was a deficiency in the ordinary revenue of government, and current expenses were being paid in greenbacks for which gold had been paid from the reserve in redemption. Thus the government was practically exhausting its reserve in ordinary payments. Such a state of things could not continue. Without going into details, for which this is not the place, it may be said in general that the reserve in the Treasury continued to fall and to produce increasing alarm, that the Secretary of the Treasury, with the authorization of the President, by virtue of an act of 1875 for the redemption of specie payment felt warranted in repeatedly issuing bonds in order to maintain payments in gold and to meet demands on the Treasury, and at length it was believed by the administration to be necessary to place a large amount of bonds with a syndicate of New York and London bankers pledged to import gold from Europe and to exert all their financial influence “to protect the Treasury of the United States against the withdrawals of gold, pending the complete performance of this contract.”

The government was thus brought into what many regarded

as a humiliating condition of dependence upon private bankers.

**The Campaign of 1896.**—The Presidential campaign of 1896 brought the silver issue into greater prominence than it had ever held before. The Democratic platform declared for “free and unlimited coinage of silver and gold at the ratio of sixteen to one,” by independent action of the United States. The Republican platform expressed the opinion that, while a large use of silver is desirable, free coinage of that metal should be adopted only by joint action of the civilized countries of the world. The result of the campaign is known to all.

**The Currency Bill of 1900.**—In March, 1900, a new currency bill was passed by Congress, the provisions of which may be briefly explained.

The issue of treasury notes is discontinued, and provision is made for coining silver dollars and issuing silver certificates in small denominations to take the place of those notes as they are presented to the Treasury. After coining as much silver bullion as will represent in dollars all the treasury notes which have been issued, the remaining bullion will be coined into subsidiary silver, the maximum amount of which is fixed by the act of 1900 at \$100,000,000. In this way the notes redeemable from the gold reserve will ultimately be reduced to the \$346,681,016 of “greenbacks.” A reserve is now for the first time definitely set aside as a separate fund, its amount being raised to \$150,000,000, including gold and redeemed notes. If the amount of gold in the reserve falls below \$100,000,000, and the redeemed notes cannot be exchanged for gold from the Treasury balance, short term three per cent gold bonds, payable one year after issue, are to be sold to repair the deficiency, the gold received for the bonds being exchanged by the Treasury for the redeemed notes in the reserve fund. The notes thus exchanged may be used for any government purposes, except for payment of deficits in current revenue. In this way the pressure will be lessened through the presence of more gold in the Treasury and a smaller amount of notes outstanding against it. By these provisions the ratio



of the gold reserve to outstanding gold obligations gradually increases from thirty-four to forty-three per cent.

**Banking Features of the Act.**—Some important changes are also made in the national banking system. Before, banks could issue notes only up to ninety per cent of the bonds which they were compelled to deposit in the national Treasury. They are now permitted to issue to the full par value of such bonds, with the restriction that, in the improbable event of the value of the bonds falling below par, new bonds to make up the deficiency must be purchased and deposited to the amount of the deficiency. Furthermore, the attempt is made to extend the system into smaller communities by permitting the establishment of banks with a capital of \$50,000 in communities of less than 6,000 population, and with a capital of \$25,000 in communities having a population of less than 3,000. One further provision of the act calls for mention. Inducement was offered to the banks to exchange their old five, four, and three per cent bonds for new thirty-year two per cent gold bonds. On all bank-note circulation based upon the new bonds the former tax of one per cent annually is reduced to one half of one per cent.

**The Present Status.**—In the platform of the two great parties in 1900 positions were assumed somewhat similar in appearance to those of the year 1896. The Republican Party, however, had more emphatically committed itself to gold monometallism, while the Democratic platform had ceased to make the silver plank a dominating or central one. The reasons for the change are not far to seek. In the first place, the past five years have been years of unusual prosperity. The United States has taken a position in commerce as leader of the world. The distress caused by a depreciation of prices now belongs mainly to past history, and is no longer keenly felt. Moreover, the vast output of gold from the South African and later from the Alaskan fields has been at work gradually lessening the pressure upon the money use of gold. It is felt in many quarters that the problem of the currency is in a fair way to find a natural solution. Finally, careful



thought and more study than the mass of voters have been wont to give to economic problems have spread grave doubts even among the radically minded as to the possibility of successful independent action by the United States.

**The Future.**—And yet it must be remembered that the natural remedy to which we have referred may be only temporary in its action. It is possible that gold may increase in amount until we have the reverse of the phenomena which have marked the monetary history of the last quarter of a century, or, on the other hand, the gold supplies may fail. In that case the evils of a currency gradually diminishing in proportion to business may again be experienced.

Again, further complication and difficulty may be injected into the matter by future commercial relations with the East, and particularly with China, from which country we are threatened with so many problems. Professor Reinsch, of the University of Wisconsin, in a recent book on *World Politics*, expresses the opinion that one of the great factors of the economic life of the next century will be a marvelous development of Chinese trade and industry. China is a silver-using country. Should it change suddenly to a gold standard, to conform to the money customs of other nations, its four hundred millions of people and its possibilities of vast commercial and industrial development may, in the view of Professor Reinsch, put such a pressure upon gold that the nations will find a very real and very serious problem confronting them. On the other hand, should China make the predicted advance in prosperity, and at the same time preserve the existing silver monometallism, trade must be seriously disturbed by the absence of any fixed par of exchange.

Interesting as speculations of this kind may be, they have little immediate importance, and we cannot longer indulge in them now and here.

Finally, it is to be hoped that whatever changes in our monetary system may be necessary, the agitation for cheap money will not again be revived. This agitation has been a curse to our country during its entire history, and that in

many ways. It is not merely that it has diminished confidence at frequent intervals, and thus diminished prosperity, but it has diverted attention from real issues before the country. A change in the value of money should never be looked upon as an instrument of reform. Such a change will injure the poor, and even debtors, more frequently than it will help them. If it is desired to produce modifications in the distribution of wealth, various methods can be suggested which will accomplish that end, but monetary changes are not one of these. Fortunately, recent investigations have given us reason to think that we are now definitely leaving behind us the clamor for cheap money as a phase of our history which has been due to a sparse population and primitive conditions on the ever-receding and finally disappearing "frontier."

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## CHAPTER III

## CREDIT AND THE INSTRUMENTS OF CREDIT: BANKS AND CLEARING HOUSES

IN an earlier chapter, as the reader will recall, the development of economic life was divided into three stages with respect to the mode in which goods are transferred—the periods of truck economy, money economy, and credit economy. The transfer of goods becomes continually easier as we pass from one to the other, and as we progress through any one of the periods. Probably money is the most remarkable contrivance for facilitating transfers, but, next to money, credit and its instruments have rendered greatest service in that part of our modern economic life which is especially concerned with transfers of goods. Credit is defined by John Stuart Mill as “permission to use the capital of another person.” Professor Roscher defines credit as “the power to use the goods of another, voluntarily granted in consideration of the mere promise of value in return.” Credit has also been defined as “confidence in the ability of another to make a future payment.” None of these definitions seems quite adequate. Credit has at least two economic meanings. In one sense it is a commercial transaction of a certain kind; in another it is the ability to enter into such a transaction. There are three elements in a business transaction to which we apply the term credit: first, the present transfer of goods; second, the use of the goods transferred; third, the future retransfer of the goods or an equivalent—that is, repayment. Professor Knies has defined credit as merely “a commercial transaction between two parties in which the service performed or the value rendered by the one falls in the present, and the counter-service or counter-value of the other in the future.” But this definition seems to err on the other side, by neglecting the element

of confidence which enters into credit transactions; not necessarily and not always confidence in the character of a person to whom credit is given—that is, to whom the ability to enter into a credit transaction is accorded—but confidence in some person—it may be a surety—or in some thing, such as “collateral security,” which may be sold if the counter-service is not rendered. The person who transfers goods in a credit transaction is the creditor; the person to whom they are transferred, the debtor; the amount transferred, the debt.

**Instruments of Credit.**—Growing out of credit transactions we have various documents, or written evidences of these transactions, called instruments of credit, which are frequently used as substitutes for money, and which have in great commercial centers so far displaced money in large transactions that the money remains only as “small change.”

Among these instruments the simplest and most extensively used is the check. It is simply an order drawn upon a banker with whom one has money on deposit to pay to a person named, or sometimes “to bearer,” a sum of money. Except in retail trade and in payments of wages, payments for goods and services are usually made by checks. Even wages are sometimes paid by checks, and payments for goods bought at retail, especially when they are considerable in amount or when they represent the purchases of a month or more, are generally made in the same way.

Bankers also use checks. When one banker gives a check on another the instrument is usually called a draft. When, however, the bankers reside in different countries the instrument is often called a bill of exchange.

Promissory notes are promises to pay *for value received*, under conditions named, at the expiration of a certain period. These are signed by the debtor. A person buys goods, and “for value received” promises to pay the person from whom the goods are bought. But the seller may also “draw on” the buyer by means of a bill of exchange, which in such cases is sometimes also called a draft, particularly when both parties to the transaction reside in the same country. Let us suppose

that A is the seller and B the buyer. A then writes out an order to B to pay to himself or to a third party, C, "for value received," the amount of the debt. A, the creditor, signs the bill. If B acknowledges the debt, and is ready to agree to pay it, he writes on the bill when presented "Accept" and signs his name. It then becomes legally binding, and the merchant who does not pay his drafts when they fall due is liable to become bankrupt. A check or bill may be transferred by indorsement. The person to whom payment is to be made—the payee—writes his name on the back with an order that the money be paid to a fourth party, D, the indorsee. The payee who indorses the instrument of credit is the indorser. The indorsee, D, may assign the instrument to still another party, E, by a new indorsement, and D thus becomes in turn an indorser. This may be continued indefinitely, and thus the instrument may pass from hand to hand in place of money, each one who indorses it becoming responsible, provided that no previous indorser can be made to fulfill his obligation.

Book credit is also extensively used. When goods are transferred, a record of the transaction is kept, or, as we ordinarily say, the goods are "charged," and a bill is afterward sent for the amount. A vast amount of credit is granted in this simple, old-fashioned way, both in wholesale and in retail trade. Where two persons mutually grant book credit, as is commonly the case among merchants in smaller communities, only balances need be paid on settling day. In such cases a further lessening of the amount of money needed for settlement is effected by the use of what are called "due bills," which pass locally among the merchants as a sort of credit money.

**Advantages of Credit.**—The advantages of credit may be summarized as follows:

1. Credit, by saving time and labor, furnishes a more perfect and convenient means of payment in large sums and between distant places than do the precious metals. This saving is effected by means of notes, checks, and bills of exchange. It is thus that in international trade



only small sums of money are sent from one country to another. Only balances, it must be understood, are paid in money. If some London merchants owe New York merchants a million pounds and other New York merchants owe these or other London merchants a million pounds, it is obvious that no money need leave either country. The London merchants will send orders to their New York debtors to pay their New York creditors. This is the simplest kind of cancellation of indebtedness. In actual life it is more complex, but the principle is the same. If the London creditors of New York merchants are not the same as the London debtors, the debtors could buy orders of the creditors and send them to New York. If New York merchants owe London merchants, it is possible that Paris merchants may owe New York merchants an equal sum, while London merchants are in debt to Paris merchants to the same amount. By exchange of orders all debts could be paid.

This exchange of orders is called *arbitration of exchange*. Naturally there has arisen a class of people who deal in these instruments of credit, and this is the class of bankers and brokers. Debtors and creditors both resort to them as middlemen.

2. Credit takes the place of corresponding amounts of gold and silver. This is another saving, enabling us, as it does, to employ the precious metals for other useful purposes.

3. Credit enables capital to be employed more productively. He who possesses capital, but is for any reason unable or unwilling to use it, transfers it to another for compensation, and thus both are benefited as well as the public economy. Other things being equal, it is given to him who will pay the most for it, and in a normal condition of things this is the one who can employ it most productively.

4. Credit enables those who have business qualifications, but who have no capital, or inadequate capital, to engage in business and to employ their talents for their own benefit and for the benefit of society. Many thus start without capital, and in the end become capitalists on their own account. Indeed,

credit has been the starting point of many of the large fortunes now existing. In numerous instances credit brings together capital which is owned by those without business qualifications or inclination for business, and talent possessed by persons who are without capital, and thus is not without influence in uniting capital and labor harmoniously. This is particularly the case with those institutions—like the German coöperative credit-unions—which supply capital to the poorer classes, and with American building associations, which furnish the same classes with capital for the construction of homes.

5. Credit gathers together the smallest sums into a large aggregate, particularly by means of savings banks, and makes it possible for these small sums to be productively employed by joint-stock companies and other concerns. Thus capital is concentrated, but its returns are scattered among the people. Credit encourages capital accumulation and promotes thrift. In this way it gives employment to small accumulations as they are made, and thus helps men to provide for emergencies and for old age.

There are many other advantages of credit which will suggest themselves to the careful observer.\*

**Evils of Credit.**—The dark side of the credit economy must not be overlooked. Beneficent as it is in many respects, credit continually encourages extravagance, which is a fruitful source of fraud and embezzlement. Credit at times promotes precarious speculation, because those who engage in it have little of their own capital to lose, and are sometimes over-reckless with the capital of other people. Our entire land is strewn with the ruins of business wrecked by men who have mismanaged the property which unwise credit gave into their hands. When this management assumes unusually large proportions, it becomes a powerful factor in precipitating a disastrous panic and crisis.

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\* It is proper to state that in the enumeration of the advantages of credit I have in the main followed Professor Conrad's excellent *Grundriss zum Studium der politischen Oekonomie*.

It has been said by some that all "consumptive credit"—that is, credit secured in order to enable one to spend money for personal gratification, or for personal use in any way—is bad, while "productive credit"—or, in other words, credit for carrying on a business—is good; but the line cannot be so sharply drawn, for, on the one hand, consumptive credit, while it frequently leads to extravagance, has also enabled many a young man to develop personal powers, and to become a great artist or scholar, and, on the other hand, as has just been explained, even productive credit frequently causes loss.

**Banks and Clearing Houses.**—Bankers have already been described as middlemen in credit transactions. They are sometimes called dealers in credit, and there is little that they do which is not in one way or another connected with credit. But banks are not mere agents. They have a capital of their own which serves the purpose of a guarantee fund, and they receive money which their customers deposit with them. They mingle this with their own, gaining exclusive control over it all. They become the debtors of the depositors and the creditors of those to whom they lend money. Their source of profit is not chiefly their own capital, but the capital deposited with them. As a rule, commercial banks pay no interest on deposits, and when they do pay interest they charge more on money lent than they pay on money deposited, the difference constituting their chief source of profit.

Formerly nearly all banks in the United States issued notes which circulated as money, and this was regarded as their principal business. Now only national banks issue notes, and they must deposit bonds at Washington as security for this circulation in addition to paying a tax for the privilege. All governments in civilized countries have greatly restricted the power of banks to issue circulating notes to serve as money.

Clearing houses are institutions which were originally contrived by the employees of banks, with the object of saving time and labor. Banks in a city have continual dealings with one another. A customer of a bank deposits with it all

his checks, no matter on what bank they may be drawn. It consequently happens that one bank in New York city, for example, will receive checks every day on all or nearly all the other banks, while the other banks receive checks drawn on it. Formerly there was continual running back and forth among the banks to balance the accounts. Now the representatives of all the banks meet in one common place, called a clearing house, and exchange checks, drafts, and other demands, only the differences between the sums due being paid. If more is owed to a bank than is due from it to the other banks, it receives this difference from the clearing house; if it owes more than is due it, it pays the difference. The sums due the clearing house and the sums which it must pay, of course, balance perfectly.

The clearing-house statistics illustrate the inadequacy of money alone to do the business of the world. The total transactions of the clearing houses in the cities of the United States for the year ending September 30, 1899, amounted to nearly ninety thousand millions of dollars, or more than thirty times all the money in the country, banknotes included; for the money in the country at the time was considerably less than three thousand millions of dollars.

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## CHAPTER IV

## THE REGULATION OF INTERNATIONAL COMMERCE

**Objects of Regulation.**—Nations have always regulated international commerce, and in an examination of history we discover at least four motives for this regulation. Ancient nations, the Greeks, Hebrews, and others, dreaded contact with foreigners, and regulated commerce in order to restrict international trade and reduce intercourse with other nations to a minimum. Again, nations have regulated international commerce in order to make it a source of revenue. Sometimes, as in ancient Athens, exports and imports have been equally taxed. England at present taxes only imports, but taxes them with a view to a revenue for the support of the national government. In the third place, tariffs have at times been laid by nations with the object of securing a supply of the precious metals by means of a so-called favorable balance of trade. This was a dominating principle in the teaching of the mercantilists, whose views are explained at greater length in another place. Finally, international commerce has been regulated by nations in order that the force of foreign competition might be weakened and home producers encouraged. This is usually accomplished by means of taxes on imported commodities in cases where commodities of the same kind can be produced at home. These taxes are called protective, and collectively they form what is called a protective tariff. It is supposed that, as foreign commodities are liable to special taxes, the domestic producers will receive special encouragement. The home producers are “protected” against foreign competitors.

**Protection.**—It is intended in this chapter to discuss only regulation of international commerce of the fourth kind. It will at once be recognized as a vast subject which could easily



be made to fill several volumes like the present. It must suffice us here to explain briefly the main points in the controversy between those who believe in this kind of regulation and those who oppose it; to bring forward some general considerations which ought not to be overlooked; and to say a word in conclusion in regard to some changes in our present tariff system on which all should unite.

**Arguments of Protectionists.**—It is argued in favor of protection that it promotes nationalism, which is held to be a good thing. It is further urged that domestic trade draws the citizens of a country together, while international trade is cosmopolitan and tends rather to their separation. Protectionists maintain further that protective tariffs are necessary in order to build up a diversified national industrial life. They claim that there exist in a new country like the United States many natural industrial advantages of which the inhabitants nevertheless cannot avail themselves unless they are at least temporarily protected. Government should, they say, foster infant industries in order to develop our natural resources and to produce diversity in industrial pursuits. The diversified-national-industry argument and the protection-to-infant-industries argument are thus supplementary. It is held by protectionists that older nations, with their superior capital and acquired skill, will break down in their infancy any new pursuits which a younger nation may seek to establish, in order that they may thereafter have the market to themselves. Closely connected with this is an argument based on military grounds. It is often thought by protectionists that industrial national independence prepares a nation better for international war, and the home-market argument for protection naturally follows. Again, a home market is claimed to be superior because, it is alleged, it is a surer market. Producers are less likely, they say, to be deprived of it by war and other emergencies. It is, moreover, urged that the building up of a home market is beneficial especially to the farmer, because it saves the expenses of transportation of products to foreign lands. It has also been maintained by the distin-

guished American economist, Henry C. Carey, that a country can remain permanently prosperous only on condition that what is taken from the soil is returned in manure and other kinds of fertilizers, and that this will be accomplished only when products are consumed at home. Finally, protection has been advocated in the United States, especially since about 1840, when the labor movement began to assume prominence, on the ground that it has been the cause of higher wages in the United States than obtain in European countries, and that it is necessary to maintain these high wages, which are said to be one main cause of our higher civilization.

**Arguments of Free-Traders.**—In opposition to protection it is frequently alleged that protective tariffs are a violation of the natural right of every man to buy his goods where he will and to sell his products wherever he sees fit, untrammelled by human laws. This argument, based on natural right, may be dismissed at once as a “dogmatism in disguise,” to borrow the happy expression of an English jurist in characterizing this sort of reasoning, in which high-sounding phrases are substituted for arguments, and under their cover opinions are thrust upon others without a real effort to substantiate them. How prove the natural right? It certainly does not appeal to the majority of mankind as a thing right in itself to buy and sell where one pleases, regardless of the common weal, and all history is against such exorbitant claims of individualism. It appears to most men that the public welfare must decide questions of this nature. Protection, according to this argument, is called robbery, because it violates an assumed natural right. It is much to be desired that arguments of this sort should cease to be heard so frequently.

Again, it has been claimed that the protective tariffs in the United States are unconstitutional. It would be most unfortunate and anomalous if nowhere in our government were lodged the power to pass such regulations regarding international commerce as might appear to be required for the promotion of the public welfare. But this argument is idle and futile. It does not correspond to the opinion of our best

jurists, and it is very certain that we shall never see a Supreme Court in the United States which will venture to pronounce protection unconstitutional.

The really able arguments of free-traders are those which aim to show that protection, on the one hand, fails to accomplish its ends, or is needless for the accomplishment of the ends it contemplates; and that, on the other hand, it actually does accomplish positive harm. They deny that protection is necessary to foster nationalism, and in this denial they are supported by strong testimony from modern experience. During the past fifty years international commerce has expanded marvelously, and international communication has been in every way facilitated, while at the same time we have witnessed a remarkable growth of national feeling all over the civilized world.

It is not clear that protective tariffs are necessary to produce a diversity of pursuits in a great country like the United States. True, a purely agricultural nation is not likely to progress rapidly, and a certain amount of diversification of industry is therefore in the highest degree desirable; but it would seem that our enormous extent of country, our varied climate, our natural gifts of all sorts, had in themselves amply provided for sufficient diversity.

Certain free-traders, who admit that protection may bring into existence profitable industries which could not otherwise be developed, oppose such protection on the ground that those industries, once established, will be able to retain the favor of government in discriminating duties, and that consequently, though such industries can be carried on profitably to the nation, they will not be so carried on, but will be enabled to exact from the consumers, in the form of abnormal profits, amounts which will really render them, from the social standpoint, unprofitable.

The argument for protection on the ground that it is a benefit to the laboring man does not seem to the writer conclusive. When this argument is analyzed and answered in detail it is seen to involve a discussion of many complex

economic problems. One consideration only will be suggested in this place. Labor comes into competition not with commodities, but with labor. Labor desires commodities, and the more of them it receives the better. Now, if it is desired to protect labor, a tax ought rather to be put on imported labor, in order that labor may thus be rendered scarce. If this were done, then those who desire labor would be obliged to pay heavily for it, as actually happened in England after the "Black Death" in the fourteenth century had killed off a large part of the laboring population. If it is desired to benefit labor, it would seem to the author that after importation of labor has been taxed, and labor thus rendered scarce and dear, the importation of commodities should be encouraged in order that labor may secure an abundance of them cheaply.

It is maintained by free-traders that protection is especially injurious in that it diverts industry from a more to a less productive channel. It is held that industrial forces, if left to their natural action, will seek those fields which yield largest returns, and that if government artificially induces them to take another direction, the factors of production become less fruitful and the national economy suffers.

Finally, it is alleged that protection fosters monopolies by shutting off international competition. Recent combinations of domestic producers, as seen in the so-called "trusts," which control so large a portion of the industrial field, would seem to support this allegation. It is certainly taken for granted, in the arguments of the protectionists, that if foreign competition is shut off or lessened, home producers will still compete with one another, and thus reduce prices. But now we find home producers combining to put an end to home competition. It is surely not too much to call this an abuse of the principle of protection.

**Some General Considerations** ought always to be kept in mind in tariff discussions. In the first place, the importance of the question is exaggerated. We find a country like England prosperous under free trade; we find countries like France and the United States prosperous under protection.

The matter is one of real but not of vital importance. Domestic trade in the United States vastly exceeds in its aggregate amount the foreign trade. The domestic trade of the Mississippi valley alone is far greater than our entire foreign commerce. It is much to be desired that other economic questions should receive part of the interest and discussion which are now devoted to this subject. Local politicians dispute excitedly about the tariff, and thus divert attention from local abuses. The proper management of gas works, water supply, electric lighting, and street cars is of more importance than the tariff controversy to the people of New York, Boston, or Chicago, but how much do we hear from our politicians about these local questions? Frequently the chief place to begin reforms is at home, at our own doors. When we shall have reformed the greater abuses of our municipal governments, we shall know much better how to reform the lesser evils at Washington; but this must not be pushed so far as to seem to justify indifference to national abuses.

In the second place, statistics regarding a country's prosperity, urged either for or against protection, are, as they are usually presented, of no value. The tariff policy of modern countries has been a minor factor in their industrial life. Inventions and discoveries—especially in the matter of the application of steam to industry—and the growth of intelligence have been the chief forces which have made such astounding additions to the wealth of the world during the nineteenth century.

In the third place, it must be remembered that, bad as it may be in many respects, the American tariff is a historical growth, and that during the century of our national existence it has taken deep root. It has thus become part of our life, and it cannot be suddenly eradicated with impunity. Even if it is true that American labor would be better off without a protective tariff, it does not follow that that tariff ought to be removed suddenly in the interests of American labor. If an industrial growth is abnormal, the removal of the excrescence and the return to normal conditions is a painful process and



should be effected cautiously. And yet it is impossible to tolerate permanently a bad condition of things, and while rashness is to be deprecated, progress should none the less be demanded.

Our capital has become enormous. Skill has been highly developed in our country, and it is not clear that our industrial leaders are not quite capable of holding their own with the world in a free market. The fact that labor receives a large share of the product, if such is the case, does not seem to render labor and the other factors of production less fruitful. Does the American farmer abandon the cultivation of land because out of a hundred bushels of wheat grown he must give the American laborer, say, fifty bushels, while his European rival gives only thirty? He still has fifty bushels left.

It may be said in conclusion, both from a protectionist and from a free trade standpoint, that reform of the tariff is possible. A great deal, too, can be said in favor of the position that a reform of the protective tariff should be accomplished by the party of protection. Among other things it may be particularly urged that even a far-reaching reform effected by this party would not produce half the disturbing alarm which would be caused by the same reform if effected by opponents of protection. What is especially to be desired is simplicity in our tariff system, at present so complex. No article should be taxed unless there is some good reason for it. Other things being equal, the fewer articles taxed the better. Reductions in duties should be made wherever practicable.

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**Literature.**—List, *National System of Political Economy*; Patten, *Premises of Political Economy*; Taussig, *Tariff History of the United States*; Thompson, *Protection to Home Industry*; Walker, *Political Economy* (advanced course), Part VI, chapter xvi.



**PART IV**  
**DISTRIBUTION**



## CHAPTER I

## INTRODUCTORY

It has already been remarked that the production and the distribution of the annual income of society cannot be sharply separated, and the reader must have observed that more or less has been said about the four parts into which the products of industry are usually divided, namely, wages, interest, profits, and rent. Taxes may, perhaps, be regarded as a fifth part into which the annual income of society is divided, and we may treat taxes as the part which society, organized as a state, receives for its participation in production. But, even if this view be taken, the fifth part is peculiar in so many respects that it is desirable to treat it neither under production nor distribution.

A great part of the considerations touching upon the subject of distribution might undoubtedly be included under the general heading production, but on the other hand it is frequently asserted that distribution is "the true center of all economic inquiries," and it would be equally possible, therefore, to treat nearly the whole subject of production from the standpoint of distribution. The truth is that these old traditional divisions of our subject-matter indicate different points of view, and on this account it seems desirable to retain them. When we pass from production to distribution we do not enter an entirely new field, but we look at what is in the main an old field of investigation from a new point of view.

In this "Part" of political economy we have to discuss either actual or contemplated self-conscious social efforts to control the distribution of the income of industry among families and individuals, and we have also to consider that distribution of products which flows, as it were, spontaneously from productive processes. It is, however, necessary in the



first place to add a few remarks to what has already been said about property, that fundamental institution in distribution, and about wages, interest, profits, and rent.

**Property.**—By private property we mean an exclusive right or control of a person over an economic good, and sometimes we apply the word to the economic good itself over which this exclusive right is exercised. It is of the very nature of property that it carries with it the power of exclusion within its own sphere, but not that it is absolute. Such a thing as an absolute right of property never has existed and never will exist. The Roman law defined property as "*jus utendi vel abutendi re*"—the right to use or consume a thing. Now, *abutendi* has by some been supposed to mean abuse, and it has been asserted that the Roman law gave a man the right to abuse his property. But it has been shown that *abutendi* in this place means "use up," or consume, and that the Roman law conferred no such outrageous right on a proprietor as that of wanton destruction. All codes will be searched in vain for an unlimited right of property. There are two elements in property—the social and the individual—and sometimes the one is more prominent, sometimes the other. Sometimes the one is allowed even to encroach unjustly on the other. John Stuart Mill mentions as such an encroachment the assumed right of a landed proprietor to exclude the public from the contemplation of a great natural wonder. This was felt to be so unjust and anomalous in the case of the land surrounding Niagara Falls that New York State and Canada bought out the private owners and made of the land public parks. The general public has had from time immemorial the right to use as pleasure grounds many forests in Germany, and when, in Prussia, this right was restricted, some twenty years ago, it was felt by many persons to be an unjust encroachment of the individual element upon the social. It is only within its own sphere that the right of property is exclusive. The old Teutonic idea of property, the idea which has entered into the life of England and America, makes the social element prominent, while the Roman law, with its negative characteristics,

tends to minimize the social element and to exaggerate the individual.

Every change in the laws of property changes to some extent the mode of production of economic goods, but to a still greater extent and more immediately does it alter their distribution. What is needed is flexibility in our laws of property so that the conception may be gradually altered in a conservative spirit to meet the demands of existing economic and social civilization. Inflexibility is destructive, and tends to revolution.

## CHAPTER II

## RENT

THE term rent is frequently used, in a very general sense, to denote payment for any differential privilege. But it is of that peculiar privilege or advantage which certain land-owners enjoy that we have to do in this place. In this sense rent has been defined as the annual return of land in itself. When a person parts for valuable consideration with the use of land, what he receives is called rent, but the value of the use of it is still rent when he retains it and uses it himself. The desirability of any piece of land depends upon the two factors of quality and situation. The term quality, in turn, covers considerations of extension, natural fertility, conformation, and climatic influences. Now, what determines the amount of rent? Land of various degrees of fertility, or other favorable qualities or situation, is cultivated, and the poorest land cultivated is said to be on the "margin of cultivation." This is land which pays no rent. What is received comes simply as a return to capital and labor. An abundance of land can be found which pays no rent. It "just pays" to cultivate such land, and that is all. Now, the greater part of land is either better situated or it is more fertile than this no-rent land. It more than "just pays" to cultivate this land, and the difference between the yield of this land and that of land on the margin of cultivation is the amount of rent. It is on this account that rent is said not to enter into prices. When we buy a bushel of potatoes we pay the same whether they are grown on poor or on fertile land, whether grown within half a mile of the market or five hundred miles away. But it is obvious that the cost of growing a bushel of potatoes varies widely. It is the cost under the least advantageous circumstances—where the price received barely covers the cost—which determines price. Price must be high enough

to cover this cost, or the land will go out of cultivation, just as poor land has gone out of cultivation in England and in some of our Eastern states since our West was rendered accessible by railways. When the potatoes are grown under favorable circumstances the price more than covers cost, and a surplus is left which is called rent. If rent paid were abolished, price would not be altered, as you may discover by asking any tenant whether he would lower the price of potatoes if his landlord would release him from paying rent.

It is not strictly accurate, however, to say that rent does not enter into price. A part of price usually paid is rent, and in this sense rent enters into price, but price is not altered by rent payments. Values of things exchanged are determined by their production under the least favorable circumstances under which they can be permanently produced. Those who produce under more favorable circumstances have a surplus. Pure economic rent is not return for capital—that is, for improvements—at least until they have become inseparably and undistinguishably blended with the land. Return for improvements is, strictly speaking, interest and profits. It is sometimes said that land will not sell for what the improvements cost. The effect of improvements cannot last indefinitely, and they must, therefore, be paid for year by year, and entirely paid for within an often very limited period, or they do not prove remunerative, as frequently happens. In any section of our own East, where it is said that there is no economic rent, the reader will be able to find unimproved land for which people will gladly pay rent. At the same time it is hard in practice to distinguish pure economic rent of agricultural land from profits, and it is perhaps impracticable to carry out any policy which would require this. On the other hand, it is an easy matter in cities to distinguish rent from profits. The thing is done every day in cities like London, New York, and Boston. In cities land can readily be bought separately from improvements, and the improvements can be bought without buying the land. Whatever surplus land yields above returns on labor and capital is rent, and as city lots are not cultivated,

whatever is received per annum for them is pure rent. It is usually called ground rent. What has thus far been presented is in rough outline essentially the Ricardian theory of rent.

Urban rents have certain peculiarities which have not been sufficiently noticed, due to the special importance which in the case of urban land attaches to situation. We may consider land used for residential purposes as an illustration. Cities have sections which natural beauty, healthfulness, convenience, and especially fashion, have rendered especially desirable. In proportion to demand the supply is sharply limited, and this brings about a keen competition. The height to which this competition will carry rents will depend upon the number having large wealth, and their readiness to spend money for what they regard as desirable sites for homes, fashion in our cities having perhaps more to do with intensity of desire than anything else. Similar considerations will affect the height to which rent for business sites will rise. The higher the average of well-being and the more ready people are to spend money, the higher will such rents go. Fashion enters here, too, particularly in retail trade. If people spend money readily, they will pay appreciably more for an article in a convenient locality than for the same article in a slightly less convenient situation. This will enable those doing business in desirable locations frequently to secure higher prices with a larger number of sales, or to increase still further the number of sales by keeping the same price which competitors less desirably situated ask. The influence of fashion can be seen in a very marked manner in a city like New York, where large numbers of rich people would on no account make purchases on an unfashionable street. The result is a large surplus gain secured by business sites favorably located, and competition transfers the surplus due to location to the landowners. This explains what has puzzled so many, namely, the high rents in American cities as contrasted with European cities. Our space is vast, but other considerations than space govern rents.

Reflection will show that where the two elements of a high



degree of scarcity and desirability enter into the location of land on the seashore or in summer resorts on the mountains, similar causes will give high rent. On the other hand, it is commonly a matter of unconcern where the potatoes and beef we eat were produced, and the result is that agricultural rents are less governed by situation, transportation being the chief consideration in this particular.

The subject of land rent has been under keen discussion in recent years, and an exhaustive treatment would require a larger volume than this entire work. The doctrine of Ricardo still stands as essential and pivotal in the discussion of rent, but many things have been added to it. The writer has not seen elsewhere brought out in their significance the peculiar features of urban rents which have here been briefly described, though it seems to him that we have in these features an important addition to the general theory of rent. Special attention has been called to the effects produced on rent by improvements, which, on the whole, tend to lower it, whenever certain special and peculiar elements do not give land a quasi-monopolistic character, as in the case of sites with rare beauty or fashionable dwelling quarters. Agricultural rents have fallen on account of improvements in cultivation, but still more on account of those improvements in the means of communication and transportation which have increased the available land supply. Moreover, attention has in recent years been directed to other differential gains, and also to monopolistic gains, which have been growing rapidly; as a result of all this, the rent of land, while still of vast theoretical and practical importance, has not the relative significance which it once had.

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**Literature.**—Commons, *The Distribution of Wealth*; Clark, *Capital and its Earnings*; Patten, *Dynamic Economics*; Hobson, *Economics of Distribution*.

## CHAPTER III

## INTEREST

INTEREST has been under a fire of discussion hardly less heated than that which has marked recent work on rent. In fact, the two subjects have been involved in the same set of considerations. But among all the various and varied contributions one is preëminent for its general interest and wide acceptance. This is a contribution of the Austrian economists. Their careful investigation of the function of capital has led to the following conclusions: Production by direct methods, which require little time for the process, is less fruitful than production by indirect methods, which require a longer time. Thus if I desire but a single drink of water, it may well happen that my quickest way of securing it is to bend down over some running brook and quench my thirst in simple fashion. But if my home is near the stream, and I wish to supply myself and family with an abundance of water, I can make a given amount of energy more productive if I fashion or have fashioned for me a large bucket, a cup, and at my house, perhaps, a large tank. This requires more time in one sense of the expression, but a given amount of energy is better repaid. Again, I may go a step further and purchase a small gas engine—which, observe, it has taken time to construct—and force the water from the stream to my house through a pipe. Always with advance in the use of indirect methods we note an increase in efficiency of energy. But almost invariably, also, there is as a necessary condition a lengthening of the time of the productive process. Compare travel afoot with travel by stage and by the steam railway. I can walk twenty-five miles a day. This is a direct process. It takes only a day, because there are no agents between myself and the result. In a post chaise, drawn by horses, I can travel perhaps fifty miles in a

day, but here other steps intervene. The chaise must have been created, and that means a long process, a longer process than will occur to you until you think of the origin of the various parts which go to make it up. By the steam railway I can travel hundreds of miles in a day, but the attainment of my end is by a still more indirect process and involves a longer time than in either the first or second case. This substitution of indirect methods for direct ones is made possible by capital, and an almost universal condition of such a process is a lengthened interval of production. The reader must avoid the mistake of confusing the entire process of production with its final stage or stages. Thus, in the case of the manufacture of a watch, if the reader were to regard only the final, or factory, stage, he would say, "Why, it takes only a very short time to make a watch by machinery, as compared with hand manufacture." But if the long and intricate processes of production that have entered into factory and machinery be regarded, it will at once be seen that one watch could be made far more quickly by hand than by machinery. But watches in general may be manufactured by machinery in less time than by hand, which is another way of saying what we have already said—that capital makes possible indirect processes of production, and that indirect processes are more efficient than direct ones.

But what connection has all this with interest? A very direct connection. It is this that makes interest possible. Because indirect processes of production are more productive it is possible to lay aside a share of the increased output as payment for that agent to which the increase of output is due.

This, however, explains only one part of the problem of interest. We have shown why interest can be paid. Let us next see why interest is demanded. The simplest statement of the matter is this: Interest represents the difference in value between present and future goods. One hundred dollars to-day is more valuable than one hundred dollars a year from to-day. It may be that when the year has passed, that same one hundred dollars may be even more valuable than at the be-

ginning of the period. But the hundred dollars to-day is more valuable in current estimation than the one hundred dollars a year from to-day. This is, of course, partly due to the element of risk in all human affairs. But aside from the matter of risk we know that present enjoyment almost invariably makes a greater impression upon our minds than does the prospect of future enjoyment, and hence we value present goods above future goods. So great is the difference in valuation among primitive peoples that it is almost impossible to get them to save even the means of bare subsistence. There has been gradual progress among men in this respect. To-day civilized men are coming to value future goods more and more highly, partly owing to greater security, partly owing to the fact of a clearer view of future needs, and partly owing to greater abundance for the satisfaction of present wants; and in consequence the interest rate is falling.

All this is not inconsistent with what is called the bargain theory of interest. A certain amount of capital at any time is permanently embarked in production. Other capital is such that it can quickly be converted into consumption goods, as when a small manufacturing building, if not too highly specialized in its construction, may be refitted for a house. The extent to which new capital will add to existing production is one of the elements which will determine the estimates of men regarding present and future goods. When marginal investments of capital, or investments which are open to competition, increase by a great amount the productivity of human effort, the owner of capital is in an advantageous position in bargaining for a high rate of interest; and particularly is this so if the existing stock of capital is comparatively small. In such a case he will value present goods above future goods at a rate that would not obtain under other conditions.

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**Literature.**—Cannan, *History of Theories of Production and Distribution*; Clark, *Capital and its Earnings*; Commons, *The Distribution of Wealth*; Hobson, *Economics of Distribution*; Patten, *Dynamic Economics*.

## CHAPTER IV

## PROFITS

WHAT was formerly included under the general name profit has by long-continued scientific analysis been found not to be a simple thing, but to consist of several elements. Business on a large scale has also progressed rapidly in the analysis of the older item in business bookkeeping. Even recently one writer has defined profit as the "unascertained share of distributed produce obtained by the managing capitalist for his investment of capital, services, risk, and responsibility." This definition is thoroughly in accord with the idea of profit as held by John Stuart Mill, but it is probable that most economists as well as most business men in large businesses would rather call such an aggregate return not simply profit, but "gross profit," as we shall explain further.

**Depreciation.**—In the first place, we must distinguish the amount necessary for replacement of capital destroyed from the return to capital. Modern business bookkeeping frequently does this by keeping a separate account for what is called *depreciation*. A man can hardly be holding his business well in hand who takes as profit from his plant what should be set aside or at least designed for replacement.

**Insurance.**—The same may be said of insurance. It does not seem reasonable to regard as profit an amount of money which a business man spends in securing himself against the total loss of the plant itself.

**Interest.**—Moreover, careful bookkeeping frequently makes a separate item of the interest on the plant. Of course, where the manager is not also owner it becomes necessary to do this. Even where the manager is at the same time the capitalist he will frequently wish to know just what he is receiving over and above a normal interest on his investment.



**Wages of Superintendence.**—The element of wages and salaries, of whatever sort, should scientifically be separated from profits. Private and public corporations regularly do this, and the practice is frequent in large noncorporate businesses, where the managing ability is employed, just as is any other labor.

**Monopoly Gains.**—Even yet the analysis is not complete. To make it so we must further deduct any monopoly gains. Monopoly gains are a return for a peculiar advantage, and form a separate item in distribution, in some respects comparable to the item of rent.

**Conjunctural Gains.**—Closely resembling monopoly gains in some respects is a class of gains to which later political economy has given the name conjunctural. As the name implies, these are gains resulting from a favorable conjuncture of circumstances, which could not have been anticipated. The word "conjunctural" has only recently come to have general acceptance, though the idea for which it stands had been seen more or less clearly before. The word implies any technical, legal, economic, or social causes which affect value, provided that these causes cannot readily be foreseen. Fluctuations in harvest give rise to one sort of conjunctural gains. A simple instance would be the gain resulting from the sale of bunting, fireworks, and ear-splitting instruments of noise in some small village where an unexpected event has given rise to a sudden desire for immediate celebration. Here, however, a very real difficulty presents itself. In the case just cited the conjunctural element can be plainly seen. But in many instances the gain is, in part at least, the reward of foresight and energy, and is then to be classed as profit. The man who makes a fortune by buying suburban property in an unlikely neighborhood, because he sees reasons why growth should be in that direction, could claim that his gain from the venture was not conjunctural. In real life we have all the stages between clever business foresight and pure conjuncture. As the late Professor Amos G. Warner pointed out, in an article on "California Land Problems," "It is usually

on the frontiers of industry that great fortunes are made speedily, and a mixture of shrewd foresight and good luck is necessary to their accumulation. This is true whether the new departure be the introduction of novel methods into an old community or of old methods into wholly new territory."

**Pure Profit.**—This analysis, then, gives us as our concept of pure profit all that is left after deducting the items mentioned. Even the item of pure profit is not a simple one, but consists of the two elements which we may distinguish as marginal and differential profits. Society must at any time pay for the goods which it consumes a price sufficient to afford some profits to even the most inefficient managers whose services are necessary to produce the required supply at that price. More efficient *entrepreneurs* will therefore be able to secure a greater return in profit, representing the difference in efficiency between their management and that of the *entrepreneurs* of marginal efficiency. 'The first sort of profit may be called the necessary or minimum or marginal profit; the second, the differential profit. In either case, the return is a personal one, a return to management as such, independently of monopoly advantage, conjunctural gain, or mere wages as such. It will be clearly seen that as business becomes more and more fully organized, falling more and more into routine, as knowledge becomes more widely diffused throughout the business community and the world at large, and as government improves in regularity and firmness and honesty of action, pure profits will tend to lower and lower limits.

**Summary.**—It may assist the reader to have summarized for him the considerations which have just been presented. Gross profit as distinguished from pure profit contains at least five different elements, and in some cases at least six or seven. The items always found in really profitable businesses are replacement fund, or fund for depreciation, insurance, interest, wages of superintendence, and the pure profit which we have designated as marginal. The other elements often appearing in business are monopoly and conjunctural gains and differential profits.

The percentages of profits and of interest, either separately or together, tell us nothing about the distribution of products between labor and capital. If we know that interest and profits have fallen, this also tells us nothing about the distribution of products between the two factors of production. In such a case we do not even know that capital and enterprise are receiving a smaller relative share than formerly. This can only be shown by demonstrating that capital has not increased in as great a proportion as the rate of interest or profits has fallen. Let us for the present, therefore, "lump" profits and interest and call both profits, and let us call the entire return profits on capital, although, strictly speaking, part of it is the share of the *entrepreneur*, and is reward for "enterprise." On this basis, if profits fall from ten to five per cent, while the capital is quadrupled in amount, profits will have increased in their total amount one hundred per cent.

**Capital and Capitalization.**—We must also distinguish between capital invested and capitalization. Capitalization means the amount at which a property is valued, and it may be ten times the cost of capital actually invested, for it is based upon gross profits. When we speak of profits as being ten per cent or five per cent we mean profits on free or disposable capital, and this rate depends on opportunities for production which are still open, not those which have already been seized. Let us suppose that the returns on investments which are still open to all are about ten per cent, but that the return to a telephone company or an electric-lighting company which has actually invested \$100,000 is \$100,000; the undertaking will be capitalized at \$1,000,000, so as to conceal the actual rate of gross profits. As profits fall on new investments open to all, capitalization of old and lucrative enterprises rises in proportion, even where no new capital is invested. One familiar form which this takes is "stock watering," but it is also seen in higher prices. Thus, if a house yields \$1,000 a year, and ten per cent is a fair return for house property, it will be valued at \$10,000; but if profits fall, and five per cent is considered a good return, the house will be valued at \$20,000 if it still

returns the \$1,000 a year. This increase of capitalization is sometimes an unconscious process, and a man will at times feel poorer when he is receiving five per cent on his capitalization of an investment than when he was receiving ten per cent, although his capitalization has meanwhile quadrupled without any additional investment of capital.

**Profits of Monopolies.**—It is often said that profits tend to equality. This may be true, and, indeed, it probably is true, of pure interest in a large, well-supplied market. There are in such markets constant fluctuations and a constant tendency toward a level, a level always changing, at least slightly. When the flow of capital is perfectly free the same tendency may be observed with respect to profits in the strict sense, although here many obstacles which we may call *economic friction* render the movement toward equality slower and less certain. It is the force of competition that brings about this tendency toward equality. If an *entrepreneur* in one branch of industry is receiving exceptionally high profits, other *entrepreneurs*, as soon as they learn the fact, will direct their capital into that channel, and this will tend to make various industries equally attractive—to reduce them to a level. Of course, within each kind of industry gross profits will vary according to situation, and more particularly according to the capacity of the *entrepreneur*. All this supposes, however, a free flow of capital, and it is a peculiarity of modern industrial life that in an ever-increasing proportion of the industrial field—that represented by natural monopolies and social monopolies—the flow of capital is not free, although outside of these favored undertakings competition is continually increasing in severity. While the ordinary merchant or manufacturer may rejoice to receive five or ten per cent, much capital is invested which yields, not on capitalization, but on capital, twenty, thirty, forty, and even one hundred per cent. This brings us to one aspect of the so-called great “social question,” and it shows how far from having grasped its full significance are those who reduce it merely to a labor problem. It is quite as much the merchant’s, the manufacturer’s, the lawyer’s, the teacher’s

problem. It is what its name indicates, the problem not of any class, but of society.

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**Literature.**—Ely, *Monopolies and Trusts*; Mill, *Political Economy* (unabridged edition), Book II, chapter xvi. Also authorities cited in preceding chapters.



## CHAPTER V

## WAGES AND THE WAGES SYSTEM

**The Standard of Life.**—It has been the opinion of many of the ablest political economists for over a century that what is technically called *standard of life*, or *standard of comfort*, determines the wages of labor. This means that laborers have an habitual standard of life, a certain style of living, and that what they receive as wages enables them on the average just to keep up this standard. They are able to occupy such a sort of dwelling, to wear such clothes, to eat such food, and generally to do such things as this standard requires, but no more. This idea, expressed as a law, has been called the *iron law of wages*. The array of facts which support this conclusion is so overwhelming, is gathered from countries so widely separated and from periods so distant from one another, that it is difficult to resist its acceptance. The iron law of wages, however, must not be regarded as being like a law in physics, but rather as expressing in a rough sort of way a powerful tendency. Among the striking evidences of the truth of the theory of the standard of life as the norm for wages, the fact is especially noteworthy that, as a rule, it seems to fail to benefit the laboring populations on the whole and for any length of time for the wife and children to earn money, even apart from all other considerations than money-getting. The world over, when it becomes customary for the wife, or wife and children, to work in factories, it very soon becomes necessary for them to do so to support the family. The earnings of the entire family in the end just maintain the standard of comfort which had formerly been maintained by the wages of the head of the family. Attention, for example, has been called to the fact that in the textile industries of Rhode Island and eastern Connecticut, in

which great numbers of women and children are employed, the earnings of the entire family are no larger than in other industries, such as those in metal, in western Connecticut, where only the man works. Similarly an increase in the length of the working day confers no benefit in permanent increase of wages, while it has yet to be shown that a reduction of the length of the working day ever reduced wages permanently. On the contrary, it is more likely to raise the standard of life, and thus ultimately to raise wages. From this principle flow many important conclusions which cannot be elaborated in this place. It was probably on account of a conviction of the essential validity of this law that the Hon. A. S. Hewitt, when Mayor of New York city, refused his sanction to an apparently philanthropic scheme to establish in different parts of the city lunch stands where something to eat could be obtained for a cent. Probably many political economists would agree with Mr. Hewitt in thinking that it would in the end do more harm than good. Simply to reduce the cost of living will never render men really prosperous.

This tendency, when called the iron law of wages, has been used as a means of agitation to provoke discontent among wage-earners, but it applies in a rough kind of way to all classes, and to judges and college professors quite as relentlessly as to workingmen. If the standard is what it should be, what more can be asked than that we should be able to maintain it? It should include provision for all real needs and for accidents, and for future emergencies, such as disability on account of old age. A deposit in the savings bank and a life insurance policy ought to be a part of the habitual standard of life. The standard of life with the great masses of laborers is unfortunately not what it should be, but it can be raised. It has been raised in the past, and the true kind of social reform cannot be brought about unless it is to be raised still further. The more nearly it becomes in all respects what it ought to be, the nearer we are to our goal—a goal which, like all ethical goals, we can forever approach but never reach. Perfection is infinite.

The standard of life has at times fallen, and at times requires a tremendous effort to maintain it, and a still mightier effort to raise it. In general, it may be said that there is greater difficulty in raising the standard than in maintaining it when once raised, and that there is greater persistence in maintaining a high standard than a low one. People of high culture, resulting from a high standard, have greater desire to maintain the standard, and greater power to effect their desire. In these days it requires a struggle for our laboring classes to maintain their standard against the onslaught of cheap and degraded labor pouring in upon us from southern Europe. It is on this account, among others, that it is desirable to restrict immigration to some extent, since a lower standard of life among the masses of the people means a lower civilization. When the struggle to maintain a standard of life is not too severe it has beneficial results which ought not to be overlooked. If the struggle is successful it results in increased efficiency, and is a spur which human nature, when too sluggish, needs. In some cases the struggle has this result in the United States. Thus a large proportion of native Americans abandon pursuits invaded by those with a lower standard of life, and attempt elsewhere to keep their standard. A part of those who are thus displaced succeed, and attain a much higher standard than the old. Others cannot make the ascent, and become a dissatisfied element in society.

The standard-of-life theory of wages, however, must be interpreted in a very large way in order to be a true theory. Recently much has been said about a *bargain theory of wages*, and in some respects this is a better mode of approach in the discussion of the question. Each great theory of wages, indeed, contains elements of truth and may be looked upon as a mode of approach. If we examine thoroughly the bargain which determines wages, we must ask ourselves what are the forces lying back of the bargain; and we find that when we have regard to the general level as distinguished from fluctuations, one of the most powerful of these forces is the standard of life. This signifies that those improvements which promise

permanent benefit must act on the feelings, intelligence, and habits of the masses of men, and that all schemes which do not affect character accomplish little or nothing in the end.

Formerly a theory of wages was generally held which was designated as the wage-fund theory. This made wages dependent exclusively on accumulations of capital set aside for wages. In its rigid form this theory has been discarded, but it contains an element of truth. Wages at a given time and place do find, not rigid, but somewhat elastic, limits in past accumulations of wealth.

A productivity theory of wages has also found advocates, and this contains important elements of truth. As subsistence sets the lowest possible limit, productivity in excess of cost sets the highest limit. The greater the production of wealth the higher the limits which the wage-earner may reach in his bargain. Space forbids further amplification along these lines.

**The Law of Distribution.**—In the struggle for the division of products the most slowly increasing factor is at an advantage. When the product is once given, the more one takes the less is left for others. If you take three quarters of the loaf, only one quarter is left for me, and no fine phrases can alter this fact. The struggle made by interest and rent seems to be a quiet, regular sort of struggle, obeying strong tendencies; while the active, noisy, and at times violent struggle takes place when it comes to dividing between labor and capital what is left after paying interest and rent. Now, the standard of comfort, or the standard of living, has this implication, that population will not increase beyond the point where the struggle can be hopefully maintained. When, in a progressive country, the standard of wages is threatened, efforts of many kinds are put forth to prevent a fall in it. Our Chinese Exclusion Act finds its explanation in the apprehensions entertained in regard to the American standard of life. Moreover, if the struggle begins to be severe, fewer people will marry; those who do marry will prolong the years of celibacy; on ac-

count of increased want, the mortality of children, always great among the poor, will increase; and thus in one way and another the labor factor will increase more slowly. Otherwise one of two things must happen: either new openings for labor must be found or the standard must fall.

**Differences of Wages.**—We have different standards of life in different occupations, with corresponding differences of remuneration, whether paid as wages or salaries. What determines differences of wages of various occupations? All sorts of fanciful replies have been given. The differences are largely historical. To understand them we must go back to a man's grandfather or great-grandfather. Some one has indeed said that true wisdom is shown in the careful choice of one's grandfather. Occupations where remuneration is high are so difficult to enter that few are able to surmount the difficulties. Thus peculiar and rare qualities may be required, or opportunities which come from favorable environment, or an expensive training, which few parents are at once able and willing to give. What one is depends largely on one's parents, and, yet, unfortunately, one has no voice in the selection of one's parents. We who have been blessed in this respect ought to feel that we owe a special duty to humanity.

It should be noted here that a good system of public education continually renders more possible the free choice of occupations. Education gives greater knowledge regarding the advantages and requirements of different occupations at the same time that it puts its possessor in a position where he can more readily realize the one and meet the other. While the various sorts of labor are almost infinite in number and variety, they are nevertheless susceptible of a fairly distinct classification. The classes have commonly been called "non-competing groups." Perhaps the best naming of the different classes or groups is that made by Professor Giddings, as follows: automatic manual, responsible manual, automatic mental, responsible mental. Among these groups very little competition exists, and the greater part of the actual competition is a matter of years, resulting, as it must, from the action



of parents in preparing their children for one or the other of the groups.

Adam Smith enumerated the following five causes for differences of wages in different employments: First, the agreeableness or disagreeableness of the employments themselves; second, the costliness or cheapness or the difficulty and expense of learning them; third, the constancy or inconstancy of employment in them; fourth, the small or great trust which must be reposed in those who exercise them; and, fifth, the probability or improbability of success in them. But all this, to a great degree, presupposes that grown men, perfectly free to select their occupations—free not merely so far as the law is concerned, but free so far as their command of resources is concerned—look over the entire industrial field and choose their employment. An English writer, pointing out that occupations are very generally selected by parents, adds: “When a person is one of the large number who have been in childhood badly nourished, badly housed, badly clothed, badly educated, and not at all trained to any particular occupation, let no one prate to him of his freedom to choose what occupation he thinks proper. His legal freedom to choose many occupations is about as much use to him as his legal freedom to fly with wings in the air.” Nevertheless, with proper qualifications, what Adam Smith says explains many differences in wages.

**Piecework.**—Wages are usually paid by time or by the piece. The labor of a day, week, or month is paid for at an agreed price, or a price is paid for each piece of work done, as for each bushel of corn husked. Payment by the piece would seem to be fairer for all parties, but in manufactures abuses have so generally been connected with it that it is opposed by many intelligent artisans, and careful political economists will be slow to give it unqualified approval. Physicians testify that by producing feverish over-exertion it has in certain quarters shortened average life materially, and there is a proverb in Saxony to the effect that piecework is work that murders the wage-earner. Piecework has frequently been used

to evade or to break down regulations and laws limiting the time of work, and more frequently still to bring about a reduction of wages. The workers strain every muscle and nerve to earn high wages, and after a high rate of speed has been secured the price per piece is reduced, sometimes not once but repeatedly. Peculiarly cruel and aggravating cases of this kind have come under the writer's observation. When not connected with abuses, payment by piece has many advantages, and is at times preferable for all parties.

**The Sliding Scale.**—A sliding scale of wages, introduced by a powerful trades-union, the "Amalgamated Association of Iron and Steel Workers," chiefly in Pennsylvania, appears to have given general satisfaction and to have kept the industrial peace better than the ordinary wages system. According to this plan, wages vary with the selling price of the product, and thus labor shares to some extent in the prosperity of capital. The sliding scale is known elsewhere in this country and in England, but while it has met with a good deal of favor from economic writers, there are only very few circumstances in which such an arrangement is feasible.

**Arbitration and Conciliation** have accomplished much for the preservation of industrial peace wherever thoroughly and honestly tried. Sometimes voluntary boards are appointed by employers and employed to adjust differences, and sometimes they are appointed by public authorities. New York state and Massachusetts have permanent boards of arbitration, and both have accomplished good. The New York board appears to have inadequate powers, but the Massachusetts board, which must be summoned by local authorities and which has power to get at all the facts, has achieved noteworthy results. It is more effective than police or militia, and is less expensive for preserving peace in the excitement naturally connected with wages controversies.

Until very recently arbitration has always been voluntary. The findings of arbitration boards were legally binding upon neither employers nor employees, and gained their strength from the awakening of public interest and the enlightening

of the public mind as to the merits of the controversy which they considered. Within the past few years compulsory arbitration has been given a trial on a large scale in New Zealand, the modern laboratory of social experiments, and, according to the opinion of several able investigators, it has proved its value and practicability. In the light of this fact the general opposition which economists and others have hitherto manifested toward compulsory arbitration may be lessened, or possibly even changed to active support. The question may be regarded as still open.

**Factory Inspection.**—Labor legislation, honestly conceived and properly enforced by factory inspectors, has been productive of incalculable good. England is the model country in this respect, and in our own Union Massachusetts is the banner state. Labor legislation should aim to keep children away from regular factory work and in schools, to restrict to its lowest terms the employment of women, to limit the working day for married women and to give them a Saturday half-holiday, to shorten the working day for young persons under eighteen to the length prescribed by physiology and hygiene, and to give them also a Saturday half-holiday, to compel employers to fence in dangerous machinery and otherwise guard against accident, and by employers' liability acts to render them pecuniarily responsible for accidents to their employees. We have here a goal, and no country ever yet suffered in international competition by approximations to it. England, which has come nearest to it, has been the most dreaded country on the globe in international competition, and Massachusetts, which has gone farther than any one of our states in this direction, is one of the richest in the Union. Economists say that England's action has given her a stronger and better laboring population, and has established her industrial position upon a firmer foundation than ever. Moreover, Germany, which has within the last quarter of a century been climbing with great rapidity to a position of industrial preëminence, is precisely the country where regulation of industry by legislation is most careful and most detailed.

**Literature.**—Clark, *Distribution of Wealth*; Davidson, *Bargain Theory of Wages*; Hobson, *Economics of Distribution*; Lloyd, *A Country without Strikes* (on compulsory arbitration in New Zealand); Walker, *Wages Question*. See also authorities cited in preceding chapters.

## CHAPTER VI

## LABOR ORGANIZATIONS

THE old mediæval guilds were organizations of persons representing all the factors of production. Employers and employed, united in one body, regulated production, but the control rested chiefly with the masters. Modern labor organizations, on the contrary, embrace, as a rule, only one of the factors, the employees, and their purpose is to promote the interests of this one factor whenever these interests clash with those of the employers.

**Trades-Unions and Knights of Labor.**—Labor organizations may be divided into two classes, and as a matter of fact they are so divided to-day in the United States. These classes are represented by the trades-unions and the Knights of Labor; in England, by the new and old trades-unionism. The trades-unions are primarily organizations of skilled artisans. According to the old trades-union idea, each craft should be organized by itself. The Knights of Labor are, according to their original idea, organizations of all employees, both skilled and unskilled, regardless of trade. They aimed to break down the barriers to common action found in differences of occupation. The Knights of Labor, in their earlier days, took a broad outlook upon society, and sought to accomplish greater things than did the trades-unions. The trades-unions assume a difference of interest between employers and employed. They are, as it were, a fighting body. It must be granted that this divergence of interests actually exists, and that fighting bodies often preserve peace. "If you would have peace, prepare for war," is an old maxim, which is not without application to the industrial field. But the Knights of Labor looked beyond a period of conflict to a union of productive factors which should be peaceful. They hoped in some way to see labor and capital



united in the same hands. They desired to make capitalists of laborers, and to organize production on a coöperative basis. It is doubtless on account of this ultimate aim that they admitted employers, many of whom were members, and also the professional classes, a considerable number of teachers, journalists, and preachers being also at one time members of their organization. The Knights of Labor were in so far a return to the principle of the old guild organization.

Knights of Labor and trades-unions have both modified their original programme. The trades-unions have united in larger federal organizations, first in the Central Labor Unions of our cities, and later in the national body, the American Federation of Labor. This national body has also made provision for the organization of unskilled workingmen, and for local unions of workingmen of different trades where those engaged in each trade are too few for separate organization. The Knights of Labor, on the other hand, organized separately a considerable number of trades in what were called "district assemblies," and thus recognized more largely than they were at first inclined to do the principle of federation with separate crafts as a basis.

The Knights of Labor started out with high ideals, as already stated. But soon they became involved in a bitter controversy with labor organizations of the older type, especially with those which made up the American Federation of Labor. It is not necessary, now and here, to enter into the causes of this controversy, nor need we consider the methods used by the two parties to the feud. Suffice it to say that the order of Knights of Labor was greatly weakened thereby. Furthermore, the Knights of Labor became involved in many strikes which were attended with disorder and violence, and on this account they suffered still more. Finally, factional struggles have arisen within the order, and the spirit manifested in these has been too frequently such as to make men forget their early ideals. Thus, in one way and another, the Knights of Labor, through misfortune and folly, have lost a large part of their former strength, and now appear to be nearly everywhere

quite insignificant. In the history of the American labor movement they occupy a prominent position, and their activity in the past will be one of the forces giving it shape in the future.

**Growth of Labor Organizations.**—It is usually estimated that more than a million workingmen in the United States are members of labor organizations. The number, of course, varies. A period of prosperity for the organizations has generally been followed by one of reaction. Reaction always terminates in a new advance, and thus far in the United States each new advance has carried the labor organizations farther forward than ever before. The present is a period of growth.

**Farmers' Organizations.**—The organizations of farmers, the Patrons of Husbandry and the National Farmers' Alliance and Industrial Union of America, are more like the old guilds in this, that they are organizations of independent producers designed to protect their interests against attacks from other social classes. Recent years have, however, witnessed an approach of labor organizations and farmers' organizations to each other for the attainment especially of common political aims. For several years local groups of farmers in almost all sections of the country have combined for the sale of farm produce and for the purchase of farm implements and home supplies. This coöperation seems in the main to have been successful. In California, particularly, there are large and strong organizations for the sale of fruit.

**Labor Organizations a Natural Growth.**—Labor organizations are not forced products. They have grown up almost spontaneously. They have arisen naturally out of modern industrial conditions. Wherever capital is a separate factor in production, and is organized on a large scale, labor inevitably organizes sooner or later in order that it may stand on an equal footing and make labor contracts advantageously. Let us suppose that one capitalist employs a thousand men. If these men are not organized, each man individually treats with all the capital in the establishment. All the capital is

represented by one man, but one wage-earner represents but one thousandth part of the labor force, and he is not in a position of equality. The laborers therefore unite their labor, and speaking through one representative, place all the labor against all the capital. In other words, "collective bargaining" is substituted for the former "individual bargaining" with employers. This is something which so naturally suggests itself that we find labor organizations in all modern lands.

**Opposition to Labor Organizations.**—Labor organizations met at first with violent opposition, and it cannot be said that in their earlier stages or even in their later growth this opposition has by any means been groundless. However, whatever bad traits naturally characterize labor organizations are aggravated so long as those organizations are obliged to struggle for existence. Whenever the fact of their right to exist is frankly acknowledged, and employers, ceasing to persecute them or their officials, recognize the man who treats in a representative capacity for the sale of labor as courteously as they would an agent for the sale of corn or wheat; finally, whenever courts cease to harass them with legal chicanery, as courts long did in England—they tend to become strong and conservative. The fact is undoubted that most serious abuses and outrages have attended the progress of labor organizations, but, after all, the unions have simply exhibited weaknesses of sinful human nature, weaknesses which have been observed in more frightful manifestations in those other organizations, nevertheless excellent, which we call Church and State. The true course is to recognize the beneficence of the principle of organization and to contend only against abuses. It can scarcely be too much to say that this is the opinion of nearly all competent observers in England, Germany, and the United States. The following quotation about labor organizations from *Work and Wages*, by the late Professor Thorold Rogers, of Oxford, not only expresses the view of many scholars and business men, but also illustrates a common change of attitude on the part of fair-minded persons who have seen previous preju-

dices against labor organizations removed by a careful examination of their claims: "These institutions were repressed with passionate violence and malignant watchfulness so long as it was possible to do so. When it was necessary to relax the severities of the older laws they were still persecuted by legal chicanery whenever oppression could on any pretext be justified. As they were slowly emancipated, they have constantly been the object of alarmist calumnies and sinister predictions. I do not speak of the language of newspapers and reviewers, which simply reëchoed the passions of the hour; far graver were the allegations of Senior and Thornton. . . . I confess to at one time having viewed them suspiciously; but a long study of the history of labor has convinced me that they are not only the best friends of the workman, but the best agency for the employer and the public; and that to the extension of these associations political economists and statesmen must look for the solution of some among the most pressing and difficult problems of our times." It may be proper to state that while the author does not expect from labor organizations alone as much as is implied in the quotation, yet his own experience in the matter of having his opinion changed by careful study has in the main been the same.

Space is too limited to permit an explanation of the misapprehensions of the general public in regard to labor organizations. One of them is that innocent and peace-loving workmen, perfectly contented, are misled by agitators who have been placed at the head of labor organizations. Careful observation will show that the influence of labor leaders is, on the whole, conservative, and that strikes originate among the masses and are generally resisted by the leaders as long as it is possible. It will also show that leaders are more ready to terminate strikes than are a large proportion of the "rank and file" in the organizations.

**Success and Failure of Strikes.**—Strikes produce harm, and every effort should be made to avoid them. They are, however, successful in more cases than is ordinarily supposed, and when occasionally a decided victory is scored the gain is im-

mense. An agitation of a few weeks and a strike of a few days, together with an act of the legislature, once established a reduction of the hours of labor from seventeen to twelve for the hundreds of street-car employees in Baltimore. This is probably an advantage permanently secured. Other illustrations might be given. Nothing is gained by shutting our eyes to such facts.

Even where strikes are apparently failures they may yet be successful in so far as they inspire sufficient fear of a recurrence to exact fairer treatment from unwilling and unjust employers.

It has frequently been said that strikes are rarely successful, except when they coincide with a period of improving business, and that strikes to raise wages are more often successful than those which aim to prevent a reduction. In fact, it has even been claimed that employers have in some cases encouraged a strike, when they have desired to close their works temporarily on account of poor business. In this way, it has been argued, they are enabled, when they are ready to resume business, to drive a better labor bargain with their men. These are simply a few of the considerations which the careful thinker along these lines will be able to carry out to greater length.

Violence is disastrous, and the welfare of the masses should always rather be secured by peaceful measures. While condemning in deserved terms the violence which too often accompanies strikes and which reacts against workingmen, it is only fair to recognize the fact that this violence is in part due to the criminal classes, which improve such opportunities for disturbance. It is manifest, however, that, even so, it is only another argument against strikes wherever they can be avoided, and for the settlement of differences between labor and capital by peaceful arbitration.

**Temperance.**—Nearly all labor organizations are temperance societies, and many of their officers are total abstainers. The organizations have without doubt greatly diminished intemperance among those who belong to them.



**Educational Value.**—The educational value of the organizations is also noteworthy. The debates and discussions which they foster stimulate the intellect and do much to counteract the deadening effects of a widely extended division of labor.

Labor organizations bring men, and frequently also women, together and furnish opportunities for social culture. Temptations to coarse indulgence are thereby lessened, and an important side of human nature receives better opportunity for development.

It may be hoped that labor organizations are preparing the way for a better civilization. Certainly one of the most hopeful features of the situation is the willingness of organized workingmen to listen to strong and manly words from those who understand their real purposes, who go among them and, with sympathy for their just aspirations, endeavor to help them to distinguish between the foolish and the wise, the wrong and the right, to show them how to pursue the good, and to inspire them with faith in that righteousness which alone can exalt the masses in a nation and the nation as a whole.

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**Literature.**—Adams, *Modern Farmer*; Clark, *Philosophy of Wealth*, chapter viii, on "Wages as Affected by Combinations;" Ely, *Labor Movement in America* (giving a sketch of the movement up to 1886, but with a characterization which the author now regards as having been somewhat too favorable); McNeill, *The Labor Movement, the Problem of To-day*; Beatrice and Sidney Webb, *Industrial Democracy*; also the paper called *The American Federationist*.

## CHAPTER VII

## PROFIT-SHARING AND COÖPERATION

**Profit-Sharing in the United States.**—Labor organizations strive to secure higher wages for workingmen than they would otherwise obtain, and thus to increase their share of the products of industry. Profit-sharing goes a step further than the usual demand of labor organizations. Those who advocate profit-sharing wish laborers to secure a portion of profits in addition to ordinary wages. It is held that this arrangement promotes economical use of material and machinery by employees, generally increases their zeal and efficiency, and hence results in a larger total product and a larger revenue for the wage-receivers. Profit-sharing has been extensively tried in the United States, and it has been successfully introduced by some of the large productive establishments in the country. The testimony of American employers who have tried it is generally in its favor, although some of them have not found that it quite realized their expectations. Several influential employers appear to be enthusiastic in their praise of its practical working, and a member of a firm which has distributed over one hundred thousand dollars of profits to its employees wrote to the author that he and his partners consider it the best investment that they ever made. He thinks that they have the most loyal set of workingmen in the world. Instances recorded in a period of three months showed that at least ten thousand workingmen had in that period been admitted to a share in profits in the United States.

Profit-sharing may be extended to capital-sharing—partial ownership of capital by workingmen and participation in management. The large manufacturing establishment of Godin, in Guise, France, serves as the best example which occurs to the author. M. Godin gradually educated a large body

of working-people to that point where they could take a part in the management of his large business, and at the same time encouraged them to acquire a part of the capital. According to the latest information which has reached the author the workmen have finally acquired and now manage the entire business.

If we call industry, as ordinarily organized in our great mercantile and manufacturing establishments, a form of despotism, we may call an establishment where laborers participate in capital ownership and management, under the chief control of some one who is recognized as an industrial superior, a constitutional monarchy. These terms, although indicative of mere analogies, are, after all, instructive. The despotic principle, the one-man power, both in politics and in industry, is an excellent thing in its own time and place, and in industry it has necessarily continued longer than in the political sphere. It is a phase of development, but it ought not to be regarded as final. A large part of the industrial troubles of modern society undoubtedly find their origin in the fact that development of the economic department of social life has proceeded more slowly than the development of other departments. Elsewhere the despotic principle has been softened or displaced, whereas in the economic sphere it still continues and forms a discordant element. Yet it is difficult for most of us to see how for a long time to come we can wholly dispense with the one-man principle in industry. It should, however, be softened as far as practicable, and men should be gradually trained to understand industrial republicanism or democracy. M. Godin has set a noble example. As opposed to "industrial despotism" and "industrial monarchy," "industrial democracy" means self-rule, self-control, the self-direction of the masses in their efforts to gain a livelihood. Industrial democracy is industrial self-government, and this is found in pure coöperation.

**Coöperation** is of two kinds: coercive, which means coöperation controlled by governmental action, and voluntary. We have here to do with voluntary coöperation, and this

is what is usually meant when coöperation is spoken of. Workingmen combine their own capital, purchase their own plant, manage their own affairs in their own way, at their own risk, sharing profit or loss as the case may be. This is called *productive coöperation*. But we have also what is called *distributive coöperation*. Distributive coöperation means coöperation in distribution, not in the sense in which the word is used ordinarily in political economy, but in the sense in which we might speak of a merchant's activity. He distributes wares. Distributive coöperation refers to retail and wholesale trade, and is, after all, only an imperfect form. Purchasers of wares, groceries, dry goods, etc., combine to purchase what they need, and thus save profits. They form a stock company, subscribe for shares, employ a manager and clerks who often do not even share in profits, and start a business. Profits are sometimes divided only on shares, but the approved way is to pay a moderate interest on capital and to divide profits between stockholders and customers, the latter sharing in proportion to purchases, the division being made at the end of stated intervals. Some establishments in Great Britain, and doubtless elsewhere, carry out the full programme, and give employees a share of the profits. Profits are thus said to be divided among capital, custom, and labor.

In England and Scotland distributive coöperation has succeeded better than productive coöperation, which has, however, met with some success. France appears to have succeeded better than England in productive coöperation. Some instances of success in the United States are recorded, and many undertakings have been partly successful; in other words, they have succeeded as business undertakings, but have abandoned wholly or in part the coöperative principle. This is the case with a large stove foundry which was started as a coöperative foundry, and in which some workingmen or their heirs still own stock. One of the strikers among the workingmen in this establishment, in a difficulty which arose, owned seven thousand dollars' worth of stock. The managers seemed to take it much to heart that he should strike, but it is hard not to

feel a certain admiration for him, as he placed the union of his fellow-employees above his interests as a capitalist. A good example of pure coöperation is afforded by the three coöperative barrel manufacturing companies in Minneapolis, which together have an output of nearly two million barrels annually. Pure coöperation, when well established, prevents strikes by completely identifying the interests of labor and capital. It stimulates energy and encourages thrift. The self-interest which usually animates only the employer here animates all coöperators. No slighting of work can be tolerated, and, eye-service vanishing, much labor of supervision is done away with. On the other hand, however, divided councils often render the movements of such a business clumsy, and action cannot be so quick and decisive as when one man acts on his own responsibility. Failures of coöperation have generally been due to moral defects on the part of workingmen. It has been difficult for them to act together harmoniously, and prosperity has often produced disintegration. Wherever coöperation has succeeded, however, it has produced excellent effects on character. It is a test, but when the business stands the test it reacts beneficially on the coöperators. It makes men diligent, frugal, intelligent, and considerate of the rights of others, as well as of their own. Coöperation and temperance go hand in hand, as has been universally observed by those who have studied the matter.

It was once thought that corporations could not succeed, and even Adam Smith decided against them after a long *a priori* argument, but the inherent advantages of corporate industry have after a long struggle made themselves manifest, and corporations are in very great measure replacing the individual in business. In the same way, it is believed by some students of the subject that the inherent advantages of coöperation will sooner or later make themselves felt, and after a period of adversity, of struggle, and of slowly increasing success coöperation will finally gain industrial supremacy; thus uniting harmoniously labor and capital and ushering in an era of industrial democracy.



**Literature.**—*Coöperation in the United States* (a volume published by the Johns Hopkins University) ; Gilman, *Profit-Sharing* ; Beatrice Potter (Webb), *The Coöperative Movement in Great Britain* ; Beatrice and Sidney Webb, *Industrial Democracy* ; articles "Profit-Sharing" and "Coöperation" in the *Cyclopædia of Social Reform* (edited by W. D. P. Bliss, an extremely useful book, especially for the general reader).

## CHAPTER VIII

## SOCIALISM

THOSE who desire industrial democracy—not prematurely, but in its own time—are many, and they include some of the best economists. There are, however, different ways by which it is proposed to attain the desired goal. One of these ways is voluntary coöperation for all competitive pursuits, and governmental activity for monopolistic undertakings. Another one of these ways is called socialism. Socialism means coercive coöperation not merely for undertakings of a monopolistic nature, but for all productive enterprises. Socialists seek the establishment of industrial democracy through the instrumentality of the state, which they hold to be the only means for attaining the end. Socialism contemplates an expansion of the business functions of government until all the great dominating kinds of business are absorbed. Such business is then to be regulated by the people in their organic capacity, every man and every woman having essentially the same rights which any other man or any other woman has. Our political organization is to become an economic industrial organization, controlled by universal suffrage. Socialism would make civil service employees of all citizens, and would remunerate them in such manner as should, in view of all the circumstances, appear to the public authorities to be just. Private property in profit-producing capital and rent-producing land would be abolished, and only private property in income would in the main be retained. What is desired, then, is not, as is supposed by the uninformed, a division of property, but a concentration of property. The socialists do not complain because productive property is too much concentrated, but because it is not sufficiently concentrated. Socialists consequently rejoice in the formation of trusts and combinations,

holding that these are a development in the right direction; that is, toward socialism.

There are four characteristic elements in socialism: first, the common ownership of the means of production; second, the common management of these means of production; third, the distribution of the annual product of industry by common authority; fourth, private property in income. Socialists make no war on capital, strictly speaking. No one but a fool could do such a thing. What socialists object to is not capital, but the private capitalist. They desire to socialize capital and to abolish capitalists as a distinct class by making everybody, as a member of the community, a capitalist—that is, a part owner of substantially all the capital in the country.

Socialists say that labor creates all wealth. No rational socialist means thereby to deny that land and capital are factors of production, but as these are only passive factors the socialist holds that their owners ought not to receive a share of the product unless they personally are useful members of the community. Labor is the active factor, and all production is carried on for the sake of man. Land and capital are simply the tools of man. Socialists admit that the owners of these tools must receive a return for them when industry is organized as it is now; hence they desire that these tools should become social property. They wish to make of universal application the command of the apostle Paul: "If a man will not work, neither let him eat."

**Distributive Justice.**—The central aim of socialism, the pivotal point, is distributive justice. While it seeks to secure more efficient methods of production, it makes its central thought the just distribution of actual production. The ideas of socialists as to what constitutes justice are, however, not harmonious. Some say that equality in distribution is justice; others, distribution in proportion to real needs, so that each may have the economic means for his completest development, while still others say that justice means distribution in proportion to merit or service rendered—but the service of the individual, not of his ancestors.

**What Is Socialistic?**—It ought not to be hard to picture socialism to one's self. Governments own the post office. Nearly all governments own the telegraph. Nearly all own the wagon roads. Some own the canals and railways. Many governments own factories. Probably every national government does at least a little manufacturing. Many governments cultivate forests, and some cultivate more or less arable land. To picture to ourselves socialism pure and simple, therefore, we have only to imagine an extension of what already exists until a point is reached where a society, through its government, cultivates the land, manufactures the goods, conducts the exchanges, and carries on, in short, every productive enterprise. Only such private industry would be permitted as would not interfere with the dominating power of society in production and distribution. Thus there might exist here and there a private press supported from the income guaranteed to the individual by the state.

Socialism is compatible with a centralized government, but also, and, indeed, even more naturally, with a decentralized government. Some functions would in the case of the decentralized government fall to the minor civil divisions, others to states, others to federations of states, and even to international federations.

On the other hand, surely not every public activity is socialistic. Properly speaking, that only can be considered socialistic which tends to render government dominant in production. Does a measure tend to the suppression of individual production and production by voluntary associations of individuals and to the absorption of production by government? Then it is socialistic; otherwise not. This is the only way to distinguish between socialistic and nonsocialistic, or even antisocialistic, measures. This furnishes us with a rational basis for judgment. If we are socialists, we will favor socialistic measures; but if we are opposed to socialism, we will at least be inclined to reject socialistic measures. Are compulsory education and free schools socialistic? No; they are decidedly antisocialistic. They develop capacity for self-help, and en-

able those who grow up under their influence to make the best of existing institutions. They are a conservative force. Are gas works, electric-lighting works, water-works, and the like, when owned and operated by municipalities, socialistic? No; for they are in line with a modern tendency to separate sharply the industrial functions of private persons from the industrial functions of the politically organized community. There is a sound principle at the foundation of this tendency. The conviction is gradually being forced upon us by science and actual experience that most of those businesses which are natural monopolies must in the end be owned and operated by government, while outside of this field there is a sharply defined territory in which businesses flourish only in the atmosphere of private enterprise and free competition. If we separate thus on rational principles the private from the public industrial sphere, we lay the strongest possible foundations for the existing order, instead of letting things drift in haphazard fashion into chaos.

**The Strength of Socialism.**—Socialism makes perhaps its strongest claims in its plea, first, for a scientific organization of the productive forces of society, and, secondly, for a just distribution of annual social income. When it is said that the present production of economic goods is small in proportion to population, socialism replies: "Naturally enough. Competition is wasteful. Two railways are built when one would suffice. Two trains run parallel between two cities where one would serve the public equally well. Three times as many milk wagons, horses, and drivers are required to serve the people with milk as would suffice if the milk business were organized on the plan of the mail distribution business in cities. Look at the stores, wholesale and retail, and see the waste of human force. Millions of dollars are annually expended in advertising, which would be unnecessary in a socialist state. Without competition the whole dry goods and grocery business could be carried on with a third of the present economic expenditure. Reflect on all the idle classes in modern society. Socialism would set everybody to work, and, making each one



dependent on his own exertions for success, would stimulate all energies." The argument is continued indefinitely after that fashion, and it is telling. It does not prove the point, however, unless we grant three things: first, that the present waste and idleness cannot be suppressed or greatly diminished without a departure from the fundamental principles of our present industrial order; second, that in the advantages of competition there are not social gains which more than compensate the social losses just described; third, that socialism is practicable. Justice is a strong plea in the programme of socialism, and it cannot be claimed for one moment that each one's income is at present in proportion to his services to humanity. Income in proportion to industrial merit is attractive to an ethical sentiment. But cannot we approximate more nearly to that than at present by social reform? By social reform is meant the improvement of existing institutions, but not their abandonment. No doubt the idle man is morally a thief. He receives, but gives in return no personal effort. Any man who has not earned the right of repose by his own past services, with mental or physical toil, is a shameless cumberer of the earth, unless, indeed, he is physically or mentally incapacitated for useful employment. Would the world suffer if you should die? That is the test. If you merely clip coupons, then no one would miss you. Others would willingly relieve you.

Dr. James Fraser, late Bishop of Manchester, England, recognized the obligations of personal service, but he did not in consequence favor socialism. His idea of the case was expressed in words the essential thought of which is as follows: "Most of us are by our necessities obliged to render services to our fellows. Some of us, however, have inherited or received money in some way without a return on our part. We are placed by God on our honor. It is now a matter not of physical compulsion but of honor with us to serve our fellows." What is here said would apply, of course, not merely to those who receive wealth by inheritance, but to those who become wealthy by the discovery of valuable treasures, such as

oil, natural gas, or gold or other minerals on or under soil which they own, or by the mere growth of cities, which adds immensely to the value of land. Were I to receive an accession of wealth in such a way, then legally the wealth would be mine, but morally it would be simply a new opportunity for me to help forward the progress of humanity; for ethically I myself am not my own.

**Social Reform.**—We may likewise inquire whether without a departure from the institution of private property the laws of bequest and inheritance may not be so changed as to bring about a fairer distribution of products; whether, also, by public ownership and management of important monopolistic businesses much of the waste of present private competition may not be avoided. These and a multitude of other questions suggest themselves. The author holds that social reform is likely to accomplish more valuable results than socialism can be expected to secure. What, in his opinion, is needed is a free and peaceful evolution of industrial society—not a radical departure from fundamental institutions.

**The Weakness of Socialism.**—It does not appear clear to the author how socialism could be made to work in actual life. The danger to freedom seems a very real one. The author frankly admits that up to a certain point there is a tendency on the part of government to improve as its functions increase. But would this hold with the indefinite extension of the sphere of government? Let us grant that as our very livelihood would depend on the efficiency of government all the force and energy which now go into private service would be turned into public channels. But what would happen if, in spite of all precautions, some unscrupulous combination should secure the control of government? Would there be standing ground for effective opposition outside of government? It is to be feared that such would not be the case. Dissatisfaction in abundance would surely exist, for human nature is such that man cannot be thoroughly satisfied with his surroundings. The danger is that without proper means for its expression this dissatisfaction would grow and spread

beneath the surface of society until at last it would break out into revolution. Revolutionary changes, rather than peaceful progress, are what the writer would fear as a result of the concentration of economic processes in public agencies.

The domination of a single industrial principle is also dangerous to civilization. It has been held that the domination of a single social principle has led to the downfall of older civilizations, and a distinguished American—the Hon. Andrew D. White, our Ambassador to Germany, in an excellent address, entitled “The Message of the Nineteenth Century to the Twentieth”—has expressed the fear that the private business principle, with what naturally attends it, called by this scholar “mercantilism,” threatens American civilization. Now, what is wanted is a coördination of the two principles—the principle of public business and that of private business. It is desirable that some should serve the public in an official capacity—some are specially adapted to that work—but it is equally desirable that an ample field should be left for those who prefer private initiative and activity. It seems to the author that thus only will our civilization be rendered rich and full.

**Socialists.**—Socialism has rendered good service by calling attention to social problems; by forcing us to reflect on the condition of the less fortunate classes; by quickening our consciences; by helping us to form the habit, acquired as yet by few, of looking at all questions from the standpoint of the public welfare and not merely of individual gain; and, finally, by calling our attention to the nature of the industrial functions of government, and thus leading us and helping us to separate rationally the private industrial sphere from the public industrial sphere. Socialism as a theory of society cannot, of course, be regarded as in any sense morally blameworthy. It has been advocated by good men and by bad men. To-day it numbers among its adherents earnest Christians and sincere ministers of the Gospel. Just as there are good republicans and bad republicans, good democrats and bad democrats, so there are good socialists and bad socialists. If every time a

republican committed a criminal act all the newspapers were to say, "That is what comes of being a republican," we might begin to think all republicans bad men. It is a mistake to suppose that socialists belong to the criminal class. Those who have worked among the criminal classes and carefully studied them tell us that almost no socialists are found among them. At the same time it must be acknowledged that the socialists have been most unfortunate in a large proportion of their public representatives, especially of their noisiest representatives, who have secured the largest amount of attention from the press. Some of them have been vicious men, and many of them have been bitter and vindictive. Needless animosity has been aroused by them and class hatred nourished. The cause of progress has thus been seriously injured. Furthermore, a number of questions having no real connection with socialism have been, even by many socialists, associated with it. Socialism has done harm by the manner in which it has been too frequently presented; it has also accomplished good, but the best effects of socialism have been its indirect and not its direct consequences.

**Anarchism.**—It remains only to make a few distinctions between socialism and other things which are commonly confused with it in the popular mind. Socialism has been described as industrial democracy established and controlled by government. There are, however, those who hold that if all government were abolished, men would freely and spontaneously form coöperative groups which, federated, would manage all production. These men attack government and <sup>2</sup> deny the moral right of man through government to exercise authority over his fellows. These are the anarchists. The writer frankly confesses his inability even to imagine how this kind of socialism could be made to work in actual life. Scientific anarchy is something he cannot picture to himself as anything more substantial than a dream. When socialism is defined so broadly as to include anarchy we have two kinds of socialism—namely, anarchism and collectivism, collectivism meaning what has been called socialism in this chapter. The term

collectivism is often used interchangeably with socialism and by many adherents of the policy is preferred.

**Communism** is a term which at present is not often used. It has been employed in the past to designate an extreme kind of socialism. When the system advocated includes equality of distribution per capita of population it is called by some communism, in distinction from a system which provides for unequal distribution and which they call socialism. Some writers have called violent schemes of radical social reform communistic, reserving the term socialistic for the more conservative plans of reconstruction. All the existing communistic societies in the United States, however, are composed of peace men, who do not believe in war, but instead preach nonresistance. It is, perhaps, as well to abandon the attempt to make a distinction between communism and socialism, and to drop the word communism.

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**Literature.**—Bellamy, *Looking Backward*; Ely, *Socialism and Social Reform*; also articles in *Chautauquan*, September, October, November, 1899; Kirkup, *Inquiry into Socialism*, an excellent presentation of a very conservative kind of socialism. Kirkup, however, includes voluntary coöperation under socialism, and the socialism which he describes is not, strictly speaking, pure socialism; Mill, *Principles of Political Economy*, Book V; Mrs. Humphry Ward, *Marcella*.



## CHAPTER IX

## MONOPOLIES

**Definition and Classification.**—So many and so confused are the ideas regarding what constitutes a monopoly that the reader will find it an advantage to have a clear definition which he may use as a touchstone in studying the various phenomena that in the popular speech are commonly associated with the word. The author believes that the following definition will satisfy the tests of clear thinking in all investigation of such phenomena: *Monopoly means that substantial unity of action on the part of one or more persons engaged in some kind of business which gives exclusive control more particularly, although not solely, with respect to price.* It will be found on examination that some monopolies are social in their origin, while others are natural as opposed to social. Of the social monopolies some are consciously instituted by government, with the desire to further the general welfare. Such monopolies we therefore call general welfare monopolies. Among these are patents, copyrights, trademarks, public consumption monopolies, and fiscal monopolies. The last two are designed, the one with the object of controlling consumption, the other to raise revenue for the state. The last is not found in the United States. Another class of social monopolies consists of those which have their origin in special privileges granted either by government directly, as in the case of protective tariffs on goods locally monopolized, or by some powerful interest existing outside of government, but existing by the tolerance of government. This last case is illustrated when one branch of production is monopolized by an individual or a group who are able to obviate all competition by the favor of railways in discriminating rates. There are three distinct classes of natural monopolies: those arising from such

a limitation of supply of raw material as enables a small group of persons to control the entire output; those arising from secrecy regarding methods or processes; and, finally, those arising from properties inherent in the business. These last ones, because they play an important part in the everyday life of men, will be considered more at length later. It need hardly be said that other classifications of monopolies are possible. But this classification, explaining as it does the origin, and pointing in many cases to the remedies for existing evils, is, perhaps, the best one for the general student to keep in mind. It will be helpful to summarize the classification as follows:

✕ A. Social monopolies.

I. General welfare monopolies.

1. Patents.
2. Copyrights.
3. Trademarks.
4. Public consumption monopolies.
5. Fiscal monopolies.

II. Special privilege monopolies.

1. Those based on public favoritism.
2. Those based on private favoritism.

B. Natural monopolies.

I. Those arising from limitation in the supply of raw material.

II. Those arising from peculiar properties inherent in the business.

III. Those arising from secrecy.

**Social Monopolies.**—Only a word can be said about social monopolies. Businesses are social monopolies when they are made monopolies not by their own inherent properties, but by legislative enactment or by the formation of a close connection with powerful natural monopolies, whereby they are made to partake of the qualities of the latter. Such monopolies are social in the sense that they have their origin in the social will or consent, and continue to exist by virtue of positive social action—as in the case of legislation—or by social tolerance.

Kings and queens formerly granted exclusive business privileges to favored persons, and permitted no one except those named to engage in certain undertakings. These early monopolies became so odious that sovereigns were compelled to abandon their claims of right to grant exclusive economic privileges.

Government creates exclusive privileges by copyright and patent laws, but this is done professedly in the interest of the general public and not of any favored class. Authors and inventors are granted exclusive rights in their productions for a limited period. This monopoly is considered a fit reward for valuable public services. Copyrights and patents have been objected to as interferences with natural liberty, but they have perhaps justified themselves in the stimulus which they have given to authorship and invention. It must, however, be remembered that all intellectual effort is an historical product. The telephone, for example, did not spring from the mind of one man, as Minerva sprang from the head of Jupiter. The telephone was preceded by a century of scientific invention and discovery, most of it poorly enough remunerated. The telegraph was, similarly, the result of generations of careful, plodding industry of scores of men. Professor Henry, of Princeton College, whose services in connection with the completion of the telegraph were most distinguished, conscientiously refused to take out any patent. Professor Babcock, of the University of Wisconsin, has likewise refused to take out a patent upon his invention of an extremely valuable milk tester, which is known by his name. It also frequently happens that several persons almost simultaneously and independently make the same discoveries and inventions. Now, if only the man who makes the finishing touches, which lead to utilization of a long line of work, is rewarded, it is like paying only the workmen who put the roof on the house. It is not generally understood how serious an interference with liberty patents are. A man who has a patent is allowed to say to all the rest of the world, "Because I have first done such and such things, you must not do them." Yet there may be

those who at about the same time, without any knowledge of this work, had found out how to do these same things. When a principle existing in nature, and not merely the application of the principle, is allowed to be patented, the interference with liberty becomes still greater. The practical conclusion of the whole matter may perhaps be best expressed as follows: Patents, like copyrights, are beneficial. Experience seems to warrant this assertion. Patents do not, however, rest on so strong a basis as do copyrights, because no two persons could ever write precisely the same book, and the fact that I have written a book in nowise keeps you from writing any book you please. Patents should not be granted on light and trivial grounds. The period for which they are granted ought to be strictly limited, and subterfuges for the evasion of this limitation ought not to be suffered to succeed as at present. In considering the question of patents, moreover, we should not forget the great difficulty which inventors often have in securing the fruit of their discovery. Often a poor inventor after paying the money for his patent finds that some great company proceeds to use his idea, in a slightly modified form, without offering a royalty. The courts are open to him, but in seeking such redress he frequently has to fight huge aggregations of capital. In securing legal assistance he can offer in payment only a fee which is contingent upon the issue of his case. But as manufacturing concerns in such instances do not copy the idea in every detail, but modify it in some particular, the issue of an appeal to the courts is at best a doubtful one. Consequently able lawyers either refuse such cases or are compelled to charge a large fee. The fee and other necessary costs form a big deduction from the reward of the invention even when the courts decide in favor of the protesting inventor. Moreover, owners of patents ought to receive their patents on conditions which will compel them to use them or allow them to lapse, and, perhaps, also, to grant to others the right to use the patents on payment of a reasonable royalty. Laws ought also to be changed so as to prevent such an abuse of patents as we have frequently witnessed in our rural districts, where

farmers have been induced to infringe patents unwittingly in order that damages might be collected from them. The suggestion, made by an ex-Commissioner of Patents in the United States, that the right of purchase of a patent be reserved by the federal government, is to be commended. Our patents at the present time promote monopoly, and in some cases interfere senselessly, it is to be feared, with manufactures. The patent laws require to be simplified and amended and their abuses removed. At the same time reward should in some way always be provided for those who make valuable inventions.

The trademark is a legal device somewhat similar to the patent, with which, indeed, it is frequently associated. In the case of the trademark the producer simply secures from the government the right to vend his goods in such a way that they shall always be known as his. Trademarks, in connection with the lavish advertising of recent times, have been an aid to enormous profits. By wide advertising certain pictures or designs or words come to have a world-wide reputation, and purchasers, choosing the known in preference to the unknown, are determined in their buying by the familiar trademark.

Some hold that our American tariff laws create monopolies, and, while their influence in this direction is undoubtedly vastly exaggerated, it seems scarcely possible to deny that they have assisted the producers of a few articles to form domestic combinations for the suppression of competition. The remedy suggests itself.

**Natural Monopolies.**—Natural monopolies have been the subject of frequent reference in other chapters of this book. It now remains to sum up and complete what has been said and to consider them with particular reference to distribution. Natural monopolies are those which rest back on natural arrangements as distinguished from social arrangements. The term natural is here used in its well-understood and customary sense as indicating something external to man's mind. A natural monopoly is one which, so far from giving expression to the will of society, grows up apart from man's will and de-



sire, as expressed socially, and frequently even in direct opposition to his will and desire as thus expressed. The principal natural monopolies have been enumerated. They are wagon roads and streets, canals, docks, bridges and ferries, water ways, harbors, lighthouses, railways, telegraphs, telephones, the post office, electric lighting, water works, gas works, street cars of all kinds. As a result of years of work in this field of study the author has formulated a statement which summarizes and combines the true features of such natural monopolies. The formulation is as follows: "Whenever there is a decided and continuous increment in gain resulting from combination, we have a tendency to monopoly which will overcome all obstacles. It is this increment in gain which is the cause of monopoly. Now, that cause operates when we have to do with *businesses which occupy peculiarly favorable spots or lines of land furnishing services or commodities which must be used in connection with the plant.*"

**Combination and Competition.**—It was long ago said by a shrewd English engineer that where combination is possible competition is impossible. Combination is always possible in the case of undertakings which are natural monopolies.\* It is inevitable, for it is not only cheaper to do a given amount of business by a monopoly than by two or more concerns, but even very much cheaper. If two gas companies in a city, having each a capital of a million dollars, are able, operating separately, to make ten per cent profits, when combined they will make much more than ten per cent, possibly even fifteen or twenty per cent. There is a force continually at work drawing them together. It works as constantly if not as uniformly as the attraction of gravitation, and in the discussion of natural monopolies we can safely predict consolidation.

We are not left to general principles. The testimony of experience is ample. There is never any real competition in the field of natural monopolies. There is war to settle the terms of combination, and popular language when it uses the word

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\* The author here is speaking chiefly about the second sub-class under natural monopolies, namely, B. II.

“war” in this connection, as in speaking of “gas wars,” “railway wars,” etc., is scientifically correct. Competition is a steady, permanent pressure, while war is destructive, and seeks to damage an enemy in order to make peace advantageously. The effort to compel gas companies in cities to compete has been made more than a thousand times, but never in the world’s history has it succeeded, and it never can succeed. The same may be said with reference to telegraph companies. We have had, probably, over one hundred different companies in the United States. England has tried competition over and over again. At present real competition in the telegraph business exists in no country in the world. It will never exist. In all European countries railways have combined, and the apparent competition in our own country is illusory and temporary. Combination is going forward with unprecedented rapidity.

What shall be our policy? Monopoly is inevitable. Private monopoly is odious. The test of experience approves public monopoly. Fear and trembling have usually attended experiments in public monopoly, but, as a rule, the results have in the long run been gratifying. Public ownership and public management of railways have in Germany succeeded in many respects even better than their advocates anticipated, and the opinion of experts in Germany favors them without an exception, so far as the author has been able to learn.

But shall we, in the United States, try to substitute at once public ownership and management of natural monopolies for private ownership and management? The private interests opposed to this step, the apathy, indifference, and prejudice to be overcome, are so tremendous that there is little danger of moving too rapidly in this matter. What the writer would advocate is limitation of charters for natural monopolies and an increased reservation of the rights of the public, in order that such changes as shall finally be decided to be beneficial may be easily and readily made. The right of purchase of a natural monopoly without paying anything for the franchise itself, but only for the value of the capital actually invested, or the actual value, ought always to be reserved.

**The Advantages Claimed.**—The principal advantages which, it is hoped, will attend public ownership and management of such monopolies are as follows:

**1. Increase of Public Prosperity.**—First, a diffusion of the income from the monopolies among the community will take place, and this will tend to prevent an undue concentration of wealth, while promoting general prosperity. Wide diffusion of wealth and general prosperity formed the ideal of the fathers of the American republic. How profitable natural monopolies are may be seen from the fact that they are the source of most of the enormous fortunes of our country. When they are taken under public ownership and management the income from them may be diffused in either of two distinct ways: charges may be placed so low that price will simply cover cost—the method pursued by our post office and by the English telegraph; or a profit may be derived from these pursuits, and this used to lower taxes or to do things of benefit to the people as a whole.

**2. Economy.**—The second great advantage is the greater economy of public ownership and management. We may thus avoid the larger part of that waste of which socialists complain, while at the same time we maintain the fundamental principles of the existing order. It is, in fact, the bad management of natural monopolies which has given to socialism a considerable part of its strength.

How enormous is the waste of war and attempted competition in the field of natural monopolies may be seen on every side. The construction of two needless parallel lines of railway in the United States—the West Shore and the Nickel Plate, together extending from New York to Chicago—wasted, it has been said, two hundred millions of dollars,\* a sum suffi-

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\* It is not possible in this place to enter into details. It is easily possible to overestimate this waste, but it is also as easily possible to underestimate it. A careful study of all the essential facts is required to enable one to form a sound judgment. Certainly the most conservative student must recognize that the waste is of sufficient magnitude to make it a matter of national concern, and that is the principal thing which the text endeavors to make clear.

cient to build two hundred thousand homes, or, at the rate of five persons to a family, enough houseroom for a million people. Perhaps the waste in railway construction and operation in the United States during the past fifty years would be sufficient to build comfortable homes for every man, woman, and child now in the country.

In every city are manifold evidences that attempted competition eats up a large part of what might be profit. Gas can well be supplied at a profit in most great cities, if the business is a perfect monopoly, for seventy-five cents or less per thousand. English cities supply it for less. The city of Wheeling supplies gas for seventy-five cents a thousand and "makes money." The Baltimore Gas Company's charge of one dollar and ten cents a thousand—the price just fixed by the legislature—apparently will not earn a great deal of money for the stockholders. What is the reason? Simply this: that the present company is a combination of half a dozen or more companies which have built works, dug up the streets, put gas mains in them, and run pipes into houses. An enormous sum of money—millions of dollars—has been wasted, and this waste is represented by bonds, as well as by an enormously inflated capitalization. The capital has simply been wasted. No one has received the benefit, but the people of Baltimore have suffered the loss, inconvenience, and damage of uselessly torn-up streets. The experience of Baltimore is that of nearly all large American cities.

Municipal ownership, with municipal management, of natural monopolies is everywhere in Europe being substituted for private ownership, and there the question may be regarded as practically settled by the test of experience. Public opinion increasingly favors public enterprise in the United States, and many cities are taking steps which will sooner or later result in an increased number of municipal undertakings in our country.

When services of a monopolistic nature are performed by the public, water, gas, and electric-lighting services can all be combined, and great economies secured. A better manage-



ment is the result. It is only a popular superstition that private enterprise is uniformly superior to public enterprise. Each should be superior in its own field. This superiority of public enterprise is not exceptional. During the last fifteen years the writer has had considerable experience in the use of the post office and the express companies, and has yet to find one instance in which when a mail and express package were sent at the same time from the same place to the same destination the express package reached its destination as soon as the mail. Anyone may try the experiment for himself. The author has also found the post office incomparably more obliging and desirous of doing all that he asked. It seems to make little difference how mail is addressed. If any sort of clew is given, it reaches its address. And it is instructive to note the fact that express companies, when they do not at once find the person to whom the package is addressed, turn over to the post office system the task of finding the addressee. They simply mail a postal card addressed in the same manner as the package. The American telegraph service is inferior to the foreign service, and is also inferior to our post office in the matter of accommodating the ordinary citizen. In other countries telegrams can be sent for as low a rate as nine cents for ten words, and in England there is one uniform charge of twelve cents for twelve words. In the United States the rate is sometimes as high as one dollar for ten words. True, America is a country of magnificent distances, but in the actual service of telegraphing distance is relatively a small matter. In the postal service, on the other hand, things are actually carried from place to place, and distance is, therefore, an appreciable element in expense, and yet, notwithstanding our long distances, no country carries letters for lower charges than does the United States.

Nor is it true that private enterprise always excels public enterprise in initiating improvements. English municipalities have gone ahead of private gas companies in improvements. The English government has introduced improvements in the telegraph service which our American telegraph companies



have strenuously resisted. The burial of wires in cities is only one of these improvements. The American post office went ahead of American express companies in developing the money order business. Private savings banks have followed the lead of the English postal savings bank in the establishment of branches and in the use of stamps pasted on cards for small savings. Government has gone ahead of private corporations in the matter of publicity of financial accounts, and has shown many of the pecuniary advantages of such publicity.

**3. Purification of Politics.**—The third great advantage of the public ownership and management of natural monopolies is the purification of politics. Private monopolies must be controlled by public authority. But control means interference with private business, and interference begets corruption. Frequently, when electric lighting is supplied by a private corporation, the stock is distributed “where it will do the most good,” among influential citizens, newspaper proprietors, and politicians, and we have a powerful factor arrayed against good government. This is one reason why American citizens have to pay such large sums for the services rendered by corporations, and it is likewise one of the reasons why the government of American cities is so expensive. When, however, we have public ownership and management of natural monopolies, public interests and private interests are identified to that extent, and the best citizens are won to the side of good government. Those who care to do so can observe evidences of this on every hand. Mayors in those cities where electric lighting is done by the municipality will generally testify to the good political effects. We have here the suggestion of one way to reform our civil service. In many cases it is idle to say, “Wait until our civil service is better, and then we will introduce the principle of public ownership and management of natural monopolies.” Often the industrial reform must precede. Frequently that only can open the door to a thoroughgoing reform of our administration.

Following the reforms advocated, talent will be offered a career in the service of the state, private business will then

absorb only its legitimate share of the brains of the country, and the danger of mercantilism will thus to some extent be counteracted.

**4. Will Overthrow Injurious Social Monopolies.**—The fourth advantage is that the discrimination between public and private business here advocated will prevent the existence of many social monopolies which are oppressive. Certain business men have been able to build up injurious social monopolies through their having been favored by those in control of natural monopolies, as, for example, by receiving lower freight rates than their competitors have been able to secure. The just and equal treatment of all citizens by all natural monopolies would help to give all a fair chance, and would confine the concentration of business to its legitimate limits.

**Conclusion.**—While the drift is strongly in favor of public ownership and operation of monopolistic undertakings of the kind mentioned, we must not shut our eyes to the immense difficulties which we have to encounter when we choose this horn of our dilemma. We have the problems of governmental organization, of improvement in the civil service, of more efficient methods in public business, and many others not less difficult or complex. (Particularly in the case of governmental railways for long-distance transportation do we have the problem of rates and sectional demands, with mutual suspicions and jealousies.) This is the most serious obstacle of all those standing in the way of nationalization of railways in the United States, and to many scholars it seems insuperable. Even the question of civil service is a much easier one. But even with private railways are we not likely to have to solve by public action the question of rate-making? Already it frequently comes before legislatures and courts.

Finally, even with the present drift in favor of governmental ownership, we must long have private property in many of the kinds of businesses under consideration, and so we still have with us the question of the regulation of franchise grants and public control of corporations furnishing monopolistic services. Our problems are perplexing enough, and all those

who in any way are seriously trying to solve them deserve our gratitude, while we must praise those persons who, practically engaged in these businesses, try to do what is right, and to serve the public honestly.

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**Literature.**—Baker, *Monopolies and the People*; Bemis, *Municipal Monopolies*; Ely, *Monopolies and Trusts*; Hobson, *The Evolution of Modern Capitalism*; Jenks, *The Trust Problem*; Report of the Chicago Conference on Trusts; Report of the Industrial Commission (U. S.), vols. i and ii; Shaw, *Municipal Government in Great Britain and Municipal Government in Continental Europe*.

## CHAPTER X

ADDITIONAL REMARKS ON SOCIAL PROBLEMS AND REMEDIES FOR  
SOCIAL EVILS

THERE are many social problems, and they are by no means entirely economic in their nature. They all, however, have their economic side, and the province of the economist is to look at them from the economic standpoint. When we discuss distribution we treat social problems not merely from the economic standpoint, but even more narrowly, from the point of view of distribution, recognizing, however, that they pertain as well to production.

The most prominent of the present social problems which are chiefly economic have already been mentioned and discussed with more or less fullness. It now only remains to say a few additional words about these and to call attention to one or two other social problems not yet mentioned directly; and, finally, to make some remarks on remedies for social troubles.

**Child Labor** is one of the most serious evils of our day, and, *where uncontrolled by legislation*, it is increasing with alarming rapidity in the United States, growing more rapidly than population. It is one of those things which never regulate themselves, but which, unregulated, as all experience shows, go from bad to worse. Only laws, with severe penalties for disobedience and special factory inspectors for their enforcement, can lessen this evil. With these laws must be coupled compulsory education, with adequate provision for its enforcement by means of truant officers and the provision of truant schools. It is thus that Massachusetts, the banner state of the Union in this as in all legislation touching the wage-earning class, has greatly lessened the evil of child labor. No one under fourteen should be allowed to work in factories.

For children of from fourteen to seventeen afternoon and evening continuation schools should be furnished, with compulsory attendance for a minimum number of hours. For moral and physiological reasons the hours of labor for those between fourteen and eighteen years of age should be limited to a maximum of ten on every day except Saturday, when young persons should not be allowed to work after one o'clock in the afternoon. This regulation ought likewise to apply to married women, in order to guard the interests of the home. The labor of women in factories is increasing far more rapidly than the growth of population or the labor of men. Women ought to be surrounded with every safeguard for health; every provision for decency and comfort ought to be provided; machinery should be fenced in; employers should be rendered liable for accidents; hours of labor ought to be strictly limited on physiological principles, especially until maturity; in the interest not merely of mothers, but of the rising generation, work for a period prescribed by physiology and hygiene ought to be entirely prohibited before and after confinement; finally, in the case of women, work underground and in other places dangerous to morality ought to be abolished.

**Involuntary Idleness** is a serious social trouble. It appears that, by and large, wage-earners are idle, on an average, about a tenth of the working days in the year, and some of them for several months each year. Only a small part of this idleness—in Massachusetts only about one per cent—is due to strikes and lockouts. Forced leisure does harm. It leads to the formation of vicious habits, including drunkenness and vagabondage. As much work would be accomplished as is now performed if wage-earners labored nine hours a day regularly, even if no increased efficiency were the result; and as increased efficiency is the result of shorter hours, it is altogether probable that eight hours a day of regular work would be as productive as are ten or eleven hours now, with our periods of idleness. It may be a difficult problem to effect the desired end, but certainly it would be a blessing to our entire



social life if work could be distributed regularly throughout the days of the year, with a few holidays and a short vacation, but with no enforced idleness.

**Intemperance** is at once a cause and an effect of industrial conditions, but not merely of industrial conditions, nor even of social conditions. It is undoubtedly, in part, an individual matter, and appeals to individuals are, therefore, in place; but the influence of social conditions cannot safely be left out of consideration.

**Pauperism** springs from social causes already mentioned as well as from individual causes, and the remedy must come both through improved industrial and social relations and through individual reformation. We now hear of a science of charity; and it is sorely needed, for the old-fashioned almsgiving is a curse.

**Divorce.**—The family is to be kept in view as the true social unit in all economic discussions, and divorce is one of the most serious evils connected with the family institution. The causes for divorce, and in general for the disintegration of the family, have been shown by investigations conducted by the National Department of Labor at Washington to be largely economic. It is the pressure of economic wants in the lower middle class which is most fruitful of divorce.

**Corporations and Trusts** have already been treated. In general, the writer opposes minute interference with combinations of labor and of capital. In the past such interference has been productive of harm. Whenever any pursuit is such that in that business combinations of labor and capital are dangerous, the general conclusion is that it is not fit for private enterprise at all, but is suitable only for public management. This is, however, a rule which has exceptions more or less numerous, depending upon conditions of time and place.

**Remedies in General.**—The most general remark in regard to remedies for social troubles is that there should be no needless interference of public authority with private business. This is a true source of corruption.

Interference in behalf of labor is inevitable, but it should

be confined chiefly to the protection of women and children and to those who are naturally unable to help themselves. The general aim should be to educate both the bodies and the minds of the rising generation so thoroughly as to reduce the need of interference to a minimum.

Prevention is always better than cure. The constant aim of public authority and private effort should be to anticipate troubles and to prevent their existence. It is a monstrous doctrine that the state can employ its functions and use public money freely to repress crimes, but may not spend a cent to prevent their existence. Some would have us think that the city of Chicago, for example, was warranted in spending hundreds of thousands of dollars, or even millions if necessary, to hunt down and hang anarchists, but not any money at all to provide playgrounds for children, breathing places for adults, to improve the sanitary arrangements of the city, to provide wholesome recreation, and in general to remove, so far as in its power, all legitimate cause for discontent. It is not necessary to show the fallacy of this. Laws ought not to be merely mandatory and repressive. Legislation should hold out, so far as practicable, inducements for right conduct. It ought to strive, to an ever-increasing extent, to "attract" to right action, or to become, as it is technically called, attractive and positive.

**Popular Suffrage.**—Preparation for the duties and privileges of life is a public and a private function, but the abolition of duties and privileges of citizenship is exactly the wrong thing. Those among us who look at social problems from the standpoint of the few will desire, for example, to abolish universal suffrage and to restrict the franchise, while those who have at heart the welfare of the masses will be more inclined to say: Rather prepare every person in America for the duties of citizenship. See to it that every American child is compelled to attend school at least six full years, and is taught some useful occupation. Diffuse in every way a knowledge of the duties and privileges of an American citizen, and until that has been faithfully tried let us not think of a

restricted suffrage. Do not take the suffrage from illiterates, but abolish illiteracy. Experience has shown that this is feasible.

There are, moreover, remedies for the evils connected with general suffrage which are in harmony with the principles of democracy and which are receiving strong advocacy in our own and other countries. The legislative "initiative," the "referendum," and "proportional representation" are three remedies which have been tried in Switzerland with success. In our own country the referendum is, of course, in use in the establishment of constitutions; frequently, also, in matters of public indebtedness; and is sometimes employed also in other cases. The reform of the civil service is another remedy entirely in harmony with the principles of democracy. While these remedies are political, they all have their important economic bearings, as we have seen.

There is no one remedy for social evils. A multitude of agencies for good must work together. Private individuals and private associations of individuals must supply these. Religion must furnish men with a motive power impelling them to see and do the right. Public authority must likewise do what it can for humanity. Men come forward from time to time with some one remedy, a panacea for all social evils, but such men are naturally distrusted.

This part of our treatise cannot be better closed than by the following suggestive words from the last chapter of Professor de Laveleye's *Primitive Property*: "There must be for human affairs an order which is the best. That order is by no means always the existing one, else why should we all desire change in the latter? But it is the order which ought to exist for the greatest happiness of the human race. God knows it and desires its adoption. It is for man to discover and establish it."

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**Literature.**—Commons, *Proportional Representation*; Stimson, *Handbook of the Labor Law of the United States*; Vincent, *Government in Switzerland*.

**PART V**  
**CONSUMPTION**





## CONSUMPTION

WHEN the economist comes to treat of consumption he does not approach an entirely new set of economic phenomena, but he rather changes his standpoint. The same familiar topics occur under consumption which have met us elsewhere in the present book, but the point of view is a different one. Consumption and production are correlative. Consumption is the end of production, and production finds limits in consumption. Production can merely anticipate consumption. Consumption is the motive power of production, and production goes forward satisfactorily only when there is before the producer a reasonable prospect of consumption. The toiler must see before him as a goal the consumption or the control of the consumption of at least a considerable part of the fruits of his exertions. Arthur Young, in an often-quoted passage, said, "The magic of property turns sand into gold." True, the distinguished traveler had in mind peasant proprietorship, and consumption undoubtedly does throw light on the nature and utility of private property. It is not, however, necessary that the cultivator or improver either of rural or of urban land should enjoy the right of property in it to induce him to exert himself. English tenant farmers are among the best in the world, and in American cities men diligently improve real estate which they do not own. But it is a prerequisite of a wide diffusion of economic energy that the fruits of the toil of one who conducts an enterprise should accrue to him, and that these fruits should increase in some kind of proportion to augmented diligence and efficiency on his part. Rack-rents, which take from either the rural or the urban tenant all save enough to sustain life; oppression of government—like that of Turkey, which systematically robs the producers; and exactions of those railway and other corporations which are at the same time powerful and unscrupulous—all these and other

similar agencies which discourage the producers are destructive. They take away from men the goal of consumption.

**Difficulties in Treating the Subject of Consumption.**—The subject of consumption must here be treated very briefly. Only a few main points can be touched upon. This part of political economy has not yet been sufficiently worked out for satisfactory treatment at length in an elementary work like the present. There are several reasons why this part of political economy is in a particularly backward condition. In the first place, one may connect it with a general tendency to forget the end of life in our zeal to discover the means of it. Many a writer discourses about production as if it were in itself the end, and as if consumption were a misfortune to be reduced to its lowest terms. In the second place, consumption is in many respects more difficult to treat than are other phases of economic thought. Its laws are less readily discoverable. Production often takes place in the light of day. It is frequently, and to an ever-increasing extent, concentrated in large establishments which are visible to all. A considerable proportion of consumption, on the other hand, is as widely diffused as are the homes and dwellings of individuals and families. It is generally more or less covered up, and in some cases even entirely secret. Consumption now resembles in many of its aspects the household production of economic goods in the old days which preceded the science of political economy. In the third place, political economy deals with social relations, and it must be confessed that the social element is more universally prominent in the production of goods than in their consumption.

**The Term Consumption Defined.**—The term consumption is used in economic discussion in two quite different senses, only one of which is scientifically accurate. In a very wide use of the word it signifies all destruction of utilities which minister immediately or remotely to the satisfaction of human wants. Just as production means not the creation of matter, but the production of utilities, so consumption, in the wide and not strictly scientific sense, stands, not for destruction of

matter, but for the destruction of utilities. Under this definition it is common to include two kinds of consumption. The one kind may be illustrated by the use of coal in manufacturing. In such a case the utilities in the coal are destroyed, or, as we may say, the *mere concrete utilities* have ceased to exist, but they are replaced by even greater utilities in the final product of the factory. Such consumption is called productive consumption. The other kind may be illustrated by the eating of food. The whole process of production has had this in view, and when this end has been reached our consideration of the utility of the food ceases. We may therefore call this kind of consumption final consumption to distinguish it from productive consumption. To use technical language, in final consumption the *pure abstract utility* ceases to exist because it attains its purpose in the satisfaction of human wants.

But, as we have already said, the definition which would include these very different processes under the one name of consumption is scarcely scientific, and, unless carefully guarded, is likely to engender confusion of thought. Certainly, when the word "consumption" stands unqualified it should represent only real consumption, which we have called final consumption.

Productive consumption is properly but one phase of production, and it has already been considered under that head. Yet there is a certain advantage to be derived from discussing here certain phases of the subject which have close affinities with the subject of final consumption. For we are, after all, constantly confronted in our everyday life with the problem of choosing between final consumption of goods in the present and final consumption of the same or a greater body of goods in the future, and upon our choice hang momentous consequences.

We shall, therefore, include productive consumption in our treatment of the general subject, only cautioning the reader once more to bear in mind the distinction and the difference to which we have referred.

**Consumption and Capital Formation.**—When consumption

leaves permanent results, it is saving. Saving is but one form of consumption. A farmer, let us say, raises one hundred bushels of potatoes, and with his family eats fifty, while he exchanges the other fifty for the services of persons who produce luxuries for his table, and let us suppose that these luxuries are also eaten at once. When the fifty bushels have been eaten by the family and the other fifty bushels by persons who produce luxuries for the family, no permanent result is left. Now, let us suppose that instead of using the fifty bushels to feed laborers who are producing luxuries for him, he uses them in the same indirect way to construct a needed fence on the farm. The potatoes have all been equally consumed in both cases, but in the latter case we say that the farmer has saved fifty bushels of potatoes; by which we mean that he has employed them in such a way that a relatively permanent result of their consumption remains. To be sure, the fifty bushels of potatoes have been eaten, but, as the farmer says, he "has something to show" for the consumption. Let us take another illustration: A and B have each an income in one year of one hundred thousand dollars beyond what they need to support themselves. A spends his hundred thousand dollars in giving a series of magnificent entertainments, and thoughtless people say that he is a man to be praised because he gives employment to labor. B, on the other hand, spends his hundred thousand dollars in constructing a factory. His acquaintances may not know what he is doing with his income, and may call him a bad citizen, who gives no employment, but "locks up his money," by which expression they seem to mean that he keeps from consumption commodities over which he has control. Yet, in reality, B has consumed or directed the consumption of as large a quantity of economic goods as A, and has something left to show for it. After he has given employment during the year to the men who have constructed his factory, he continues to give a number of men employment and opportunity for consumption indefinitely, while A's consumption has ceased once for all.

It should be mentioned in this connection that govern-

ments are more or less prominent in capital formation. When our federal government pays off the national debt it forms capital. The means to pay the debt are collected in small sums from millions of people who would not have used them for purposes of production, and then the aggregate is handed over to the holders of written obligations or bonds, who use it as capital. In the pockets of the people these means were not capital, and only a small proportion would have been turned into capital. There can be no doubt that debt-payment by the United States has increased the actual capital of the country. A part of this new capital, it is true, simply restored capital that had once existed and had been sacrificed years before. Similarly, when the United States expends its revenues for post office and other federal buildings, and for wise internal improvements, it increases capital. It is a consumption which is at the same time a capital formation. When municipalities establish gas works, electric-lighting works, and pay for them by taxes or by loans repaid by taxation, the capital of the country is increased. The people save a portion of their income through the agency of government, and it is the only way in which a considerable proportion of them can be made to save anything.

We have thus capital formation from the consumption of economic goods for the production of external material things, but we have, besides, what we may call personal capital formation from the consumption of things by persons who are acquiring economic skill and aptitudes. This last use of the term is, however, best considered as figurative.

It must not be supposed that all saving is useful. Capital formed is frequently employed destructively. This is the case with capital which is used to make an attack on existing capital. Capital which is saved to build parallel lines of railway or rival gas works like those which have afflicted the people of Baltimore is almost entirely destructive. All these economic goods, so far as the general public is concerned, might far better have been consumed in pure enjoyment.

**Alleged Present Consumption of Future Products.—We**



often hear of consumption in advance of production. It is said that people "live on the future." Thus it is frequently argued that during our civil war we were consuming faster than we were producing. In explanation it is alleged that the federal bonds represented the consumption of future earnings. Those who talk thus appear to have no clear notion of the actual case. It is impossible to consume faster than we produce unless we consume past savings. It needs but a statement to convince anyone that we cannot eat to-day the wheat or potatoes of to-morrow, nor can we wear coats before they are made. What is alleged of consumption beyond current production can only be true in case the capital of the country is diminishing, whereas during our civil war it really increased. What really happened was this: We as a nation became indebted to some extent to foreigners, and within the nation some of us gained while the rest of us were losing. Bonds do not represent a present consumption of future wealth, but a consumption of existing wealth for which a government agrees to remunerate its owners in the future.

**Prodigality and Avarice.**—Luxury, which falls under the head of prodigality, is one of the motives of economic activity. It is now necessary to add a few further remarks to what has already been written in order to look at the subject from our new standpoint.

"When a king makes great outlays he gives alms," was the moral justification which Louis XIV of France offered for royal extravagance, and even so really great a writer as Montesquieu said, "When the rich diminish their expenditures the poor die of hunger." It is to be hoped that the fallacy of these utterances is readily apparent to all who have carefully read what precedes. First, when we save, we also consume and we give employment; and we give more employment—sometimes even a hundredfold more—when we make wise investments in productive enterprises. Secondly, the possession of resources simply means control over labor and capital. Having resources, we can direct them whither we will. We may give them such direction that we ourselves will enjoy

their products or that others shall receive this enjoyment, as when we spend it for the benefit of humanity.

It is sometimes said that prodigality does no harm provided the money is spent at home. Those who talk in this way have not grasped the very simplest principles of political economy. The mere money does not directly concern us in any significant degree. Money is only a small part of our wealth. In great industrial centers it is merely "small change," and it is conceivable that circumstances may exist under which it would be the best thing for us to have money leave the country. If prices with us are abnormally high, foreigners cannot purchase our commodities, and our export trade will decline. What we have to consider in the case of prodigality is rather the destruction of materials and the labor which has been used up once for all, whereas both materials and labor ought to have been wisely and productively employed. The one who has control over them is guilty of wasted opportunity.

If luxury is a good thing for the people, how does it happen that the masses in oriental countries are so deplorably poor, whereas the few indulge in the most wanton luxury? Or how, on any such assumption, shall we explain the growing poverty of Rome under the emperors while luxury was continually increasing until it became the most outrageous in history? Pearls were dissolved in wine to make it expensive, and tongues of birds which had been taught to talk were served at dinner because they were costly. Waste is waste, and no sophistry can make it anything else. If a large proportion of labor and capital are employed in the production of luxuries, precisely so much less is left for the production of the necessities, comforts, and conveniences of life.

We must in the discussion of luxury as elsewhere distinguish between "the seen and the unseen," the unseen in this connection meaning simply what is not readily seen. The writer is acquainted with a university town where the "scale of living," as it is called, or the general style of life, is set by university professors who are rich, and whose salaries are

not their sole income. Doubtless tradesmen and thoughtless spectators praise their expensive scale of living, and say, "It makes trade good." That is "the seen." The "unseen" consists in part of the pain which it causes to other professors and instructors who must live only on their salaries; and—what is a more serious consideration—the pain which it involves for the wives of the poorer members of the faculty. For them it is a continual harassing struggle between efficiency and self-respect, which detracts from their usefulness and dignity. As for the rich professors, it is quite possible for them to live plainly, to set an example of "plain living and high thinking," and still spend all their incomes. Certainly no one is fit to hold a college professorship who does not see many ways in which all his own resources, however large, could be advantageously expended in advancing the interests of humanity in connection with the work of his own institution. In addition to this part of the unseen there is to be considered all that has been discussed in the preceding paragraphs.

It has been said that luxury is a reserve fund; that in times of general distress we have something which we may forego, and thereby ease over the hard times. There is some truth in this, but it is quite clear that widely diffused comfort, with a plentiful supply of savings institutions well patronized, is a far better reserve fund. After the Franco-German war, it was the frugal, thrifty classes who practiced simple living that astonished the world with their reserve fund. When France called for billions of francs, peasants, artisans, mechanics, and careful fathers of families came forward with their hard-earned savings, and subscribed for more bonds than were offered.

At the same time it is true that if all should restrict themselves to the bare necessities of life, a great portion of existing capital and labor would be unemployed. It is possible in every civilized land to produce more than the bare necessities for all. The author simply contends that luxuries are not necessary to give employment. Many costly things are

desirable. Magnificent art galleries, grand universities, splendid public schools of every grade, fine architecture, especially in public buildings and churches, extensive pleasure-grounds and playgrounds for the people in every city, and even in every town and village—all these are among the things on which vast amounts of capital and labor can be expended with propriety. These things, involving large outlays, ought to be public institutions. It is the extensive and inclusive use, rather than exclusive pleasure and profit, that justifies the great expenditures. It has been characteristic of periods of national decay that private persons have indulged in expensive luxuries while public institutions were declining and neglected. In the time of Pericles, the days of the glory of Athenian democracy, one third of the revenues of the state were expended in plastic and architectural art; in the time of Demosthenes, the comparative shabbiness of public buildings was such as to excite complaint.

Avarice is injurious, but it is probably less dangerous, because less seductive, than prodigality. The avaricious man sacrifices the end of life to the means and compels others to do so. He may increase the wealth of the country, but he allows no one to enjoy it fully, and fails to put it to the best use.

Expenditures are justifiable which tend to the development of our faculties. The requirements of ethics are that we should develop ourselves and help to perfect the rest of humanity. If we neglect our own highest development, humanity suffers. When we weigh in the balance our own needs and those of others we should have this in mind. We should also strive to render ourselves independent, so that we may not become a burden to others. If our generosity results in our own impoverishment, it is ill-advised, and may produce more harm than good.

Self-sacrifice is ethical, but self-sacrifice when degenerated becomes asceticism. Asceticism is self-denial for its own sake and not for the sake of others. It is like the perversion of charity. Charity in one of its forms, almsgiving, was once in the history of the Church exercised for the sake of the needy,



but when the Church became degenerate the so-called charity was exercised for the sake of the giver, and became thoughtless, inconsiderate, and a curse to the world.

We should cultivate inexclusive pleasures rather than exclusive pleasures. A picture is an inexclusive pleasure. Thousands may enjoy it. Costly wines are exclusive pleasures.

We should also aim to cultivate varied and harmonious consumption. Variety and harmony in consumption conduce not only to heightened enjoyment, but also to economy. To take simply the matter of food, it is easy to see that one who has acquired a liking for very many dishes can more surely and more cheaply gratify his appetite in spite of the changing conditions which travel or the seasons or lesser chances may bring about. By harmonious consumption is meant the consumption of goods or services in such combinations as will produce the maximum of satisfaction. A homely illustration is afforded by the common practice of eating together bread and butter.

Association for use of things consumed increases their utility. A public library or a public art gallery serves as an illustration of this statement. Associations for use of means of communication and transportation make railway service cheap. Associations for cooking and serving food have been proposed, and coöperative kitchens may yet spare overworked mothers much toil and help to develop the home-life of the masses in great cities.

**Wasteful Consumption.**—Under this topic we must first notice that what is often called a waste is really productive consumption. If nothing is left to show for what is consumed, we must call it a waste. If the consumption of an article like tea, however, really promotes domesticity, and cheers and soothes the mind, if it adds to the comfort of life of those who have few pleasures, it is by no means a waste. Something is left to show for it. Expenditures for recreation, for wholesome entertainments, for whatever promotes domesticity and sociability, are among the most productive. It ought not to be necessary to add that in all these cases the limit should be



drawn by the criterion of real benefit, and by a balance of directly social and directly individual considerations.

It does, however, often happen that nothing is left to show for consumption. In such cases, there is a destruction of concrete and abstract utility—a waste.

Every change of fashion involves waste, a partial destruction of values created. Fires are wasteful, and any effort to diminish their frequency or to extinguish them expeditiously deserves the heartiest commendation.

Nature is continually engaged in wasteful destruction of economic goods, and man is obliged to wage a continual warfare with her. This waste goes on all the time, and in manifold ways, but the most important economic waste is caused by the death of man, the chief agent in production.

Unwise consumption is a partial waste, and in this respect the American people are guiltier than any other civilized nation. In the West and North we have come to consume wheat for bread, to the almost total neglect of corn and rye. Often the sole reason is that wheat is more expensive. Even for our wheat bread we use flour so finely bolted that some of the best elements have been removed. In our rural districts, and too often even in the cities, we use only few kinds of vegetables. We use an insufficient variety of meats, and in large sections of the country we reject some of the best parts of meat-animals. Professor Patten has shown that this renders food needlessly expensive. For the variety of soils is very great, some being suited to certain food products, others to a different kind, and so on indefinitely, and when we use varied foods each soil can be put to the best use, but when we demand principally one or two kinds of food we shall find these often grown on land not best adapted to their growth, as when wheat is produced on land most suitable for maize or barley.

**Consumers and Producers not Two Distinct Classes.**—Drones excepted, consumers and producers are the same people. Producers want consumers, but they want only those who have something to give in exchange. If they want merely to part with their things, they can find beggars in abundance

to relieve them. Now something to give in exchange implies production, and production increases demand for commodities. It is a mistake to look at economic life exclusively from the standpoint of either producers or consumers. The free-traders have been too inclined to consider only the consumers, the protectionists only the producers; and thus a tendency to one-sidedness has been fostered. At the same time it must be frankly acknowledged that there is more danger to be feared from an exclusive consideration of producers, since there are so many kinds of production and the interests of producers are so diverse. There is not the same diversity of interests among men regarded as consumers. Nevertheless, both extremes ought carefully to be avoided.

**Crises.**—We come again to the topic of crises in industrial life. Crises are attended by a glut in the market, and it is frequently said that they are caused by over-production. A French economist, M. Jean-Baptiste Say, however, has developed what is called a *theory of the market*—quite generally accepted by economists—according to which no such thing as over-production exists, or can exist until all wants are satisfied. He says that the remedy for apparent over-production is more production. Men bring commodities to the market. What do they desire? Not money, says Say, but commodities, money being a mere medium of exchange. Now we have already seen that a consumer is a producer. If there is a deficiency of consumers, it must be because those who would like to consume have not produced economic goods for exchange. According to this theory, then, over-production, so-called, is really under-production. There is a large measure of truth in this theory. When are we most troubled with a glut in the market? Undoubtedly when least is produced. When is there the most ready sale for commodities? Undoubtedly when everybody is at work, or when most is being produced.

There is, however, another side to the question. It is quite possible to produce a larger quantity of some commodities, such as potatoes, cotton, cloth, etc., than people need. More

railways are often produced than the people need at the time. The effect of disproportionate production, by which is meant production of commodities in different proportions than exist among the various human wants, is this: Some commodities cannot be exchanged. Those who have produced them, therefore, do not make their normal purchases. Hence there is a falling off in sales of some other commodities which would have been taken by these first producers, and among those engaged in producing these other wares some cease to produce. Demand again falls off in this case, and still others cease to work, as already explained. There is disproportionate production and over-production of some things, and finally general over-production, owing to under-consumption, due in turn to lack of purchasing power.

Remedies for over-production or under-consumption are many. Whatever improves industrial society in any respect is a partial remedy. It is especially desirable, however, to bring producer and consumer as near together as possible, because it often happens at present that mutually desired products cannot, as a matter of fact, be exchanged. Obstructions to trade should be reduced to a minimum, where they cannot be removed altogether. In this connection it should be mentioned that toll-roads are among the worst of obstructions to free exchanges, and are an anachronism which no enlightened community should tolerate.

**Control of Consumption.**—Sumptuary laws, designed to control consumption, and particularly to prevent extravagance, have frequently existed in the past. They are now generally considered antiquated, but it can scarcely be doubted that in the past, in a time different from ours, they have done good. Historical institutions generally have had good grounds for their existence, which they no longer have when they outlive the period in which they were a natural growth. As a rule, sumptuary laws are not adapted to modern conditions.

The temperance agitation is designed to control consumption of one kind, and, whatever may be thought of particular

measures, it is, on the whole, an excellent thing. It has arisen out of the needs of the time. It aims not to diminish consumption as a whole, but only one kind of consumption. There have been in Europe and America numerous remarkable instances of increased general consumption following a decreased consumption of intoxicating beverages, showing that capital and labor have found more abundant opportunities than before for profitable employment.

Several states have attempted a limited control of the consumption of tobacco by making it a punishable offense to sell cigarettes to boys, and if any way to enforce the law can be found, the example of such states is worthy of imitation.

The control of consumption is so difficult that it must be left for the most part to voluntary agencies, like the Church, and to other associations formed for this and other purposes. Rulers and leaders of society can do much by a praiseworthy example of simplicity and frugality. The sovereigns of Prussia, the House of Hohenzollern, deserve commendation for their example, in this respect, which has helped to make Germany powerful.

Curiously enough, one of the worst forms of extravagance in the past, as in the present, is connected with funerals. This evil has become so great with us that a society has been formed expressly to correct such extravagance.

Insurance is a control of certain kinds of consumption. Fire insurance, insurance against tornadoes, against accidents, etc., is a contrivance whereby individual losses are distributed among many, and the burden to any one reduced. It is a fine example of social solidarity of the right sort. Life insurance is somewhat similar, although it is in some of its aspects more like accumulation by saving a part of one's income. Savings banks, building associations, mutual aid societies, and the like, help us to control consumption and to distribute it advantageously.

**Statistics of Private Consumption.**—An analysis of the consumption of individuals, families, and societies is most instructive. Such an analysis of the expenditures of a family

is called a family budget. Dr. Ernst Engel, the former distinguished head of the Prussian Statistical Bureau, who has been called the Nestor of German statistics, has advanced the theory that it might be possible, by a careful study of a sufficient number of family budgets for a period of years, to construct a sort of *social signal service*. His idea is that a knowledge of changes in the total expenditure and in expenditures for various items in a sufficient number of typical families would enable us to predict the coming of industrial storms. The theory has not, so far as the writer is aware, ever been fully worked out, but the thought is suggestive.

The following tables and statements copied from the Report of the Massachusetts Bureau of Statistics of Labor for 1885 are worthy of careful examination:

## ENGEL'S LAW.—PRUSSIA.

| ITEMS OF EXPENDITURE.                     | PERCENTAGE OF THE EXPENDITURE OF THE FAMILY OF          |   |  |
|---|---|---|--|
|   | A workman with an income of from \$225 to \$300 a year. | A man of the Intermediate Class ("Mittelstandes") with an income of from \$450 to \$600 a year. | A person in easy circumstances ("des Wohlstandes") with an income of from \$750 to \$1,100 a year. |
|   | Per cent.   | Per cent.   | Per cent.  |
| 1. Subsistence.....                       | 62.0  | 55.0  | 50.0   |
| 2. Clothing.....                          | 16.0  | 18.0  | 18.0   |
| 3. Lodging.....                           | 12.0  | 12.0  | 12.0   |
| 4. Firing and Lighting.....               | 5.0   | 5.0   | 5.0  |
| 5. Education, Public Worship, etc.....    | 2.0   | 3.5   | 5.5  |
| 6. Legal Protection.....                  | 1.0   | 2.0   | 3.0  |
| 7. Care of Health.....                    | 1.0   | 2.0   | 3.0  |
| 8. Comfort, mental and bodily recreation. | 1.0   | 2.5   | 3.5  |
| Total.....                                | 100.0   | 100.0   | 100.0  |

"The foregoing table demonstrates the points upon the strength of which Dr. Engel propounds an economic law.

"The distinct propositions are:



"First. That the greater the income, the smaller the relative percentage of outlay for subsistence.

"Second. That the percentage of outlay for clothing is approximately the same, whatever the income.

"Third. That the percentage of the outlay for lodging or rent, and for fuel and light, is invariably the same, whatever the income.

"Fourth. That as the income increases in amount the percentage of outlay for sundries becomes greater."

The following table gives the percentages of expenditures for an income of \$754.42 in Massachusetts in 1875 and 1883, and compares these with those called for by Engel's law for Prussia:

PERCENTAGES OF EXPENDITURES.

| ITEMS OF EXPENDITURE. | Mass. Budgets, 1883. | Engel's Prussian Law. | Mass. Bureau Table, 1875. | Average. |
|-----------------------|----------------------|-----------------------|---------------------------|----------|
| Subsistence.....      | 49.28                | 50.00                 | 56.00                     | 51.76    |
| Clothing.....         | 15.95                | 18.00                 | 15.00                     | 16.32    |
| Rent.....             | 19.74                | 12.00                 | 17.00                     | 16.25    |
| Fuel.....             | 4.30                 | 5.00                  | 6.00                      | 5.10     |
| Sundry expenses....   | 10.73                | 15.00                 | 6.00                      | 10.57    |
| Totals.....           | 100.00               | 100.00                | 100.00                    | 100.00   |

The following table compares expenditures of working class incomes in Illinois and Massachusetts with the expenditures made by a family of the middle class in Germany:

COMPARATIVE PERCENTAGES OF EXPENDITURES BY THE FAMILIES OF WORKINGMEN IN ILLINOIS, MASSACHUSETTS, GREAT BRITAIN, AND PRUSSIA.

| ITEMS.           | Illinois. | Massachusetts. | Great Britain. | Prussia. | Average. |
|------------------|-----------|----------------|----------------|----------|----------|
| Subsistence..... | 41.38     | 49.28          | 51.36          | 55.00    | 49.25    |
| Clothing.....    | 21.00     | 15.95          | 18.12          | 18.00    | 18.27    |
| Rent.....        | 17.42     | 19.74          | 13.48          | 12.00    | 15.66    |
| Fuel.....        | 5.63      | 4.30           | 3.30           | 5.00     | 4.61     |
| Sundries.....    | 14.57     | 10.73          | 13.54          | 10.00    | 12.21    |
| Totals ....      | 100.00    | 100.00         | 100.00         | 100.00   | 100.00   |

These tables will help us to understand the social troubles of our time. They show that the amount which workingmen have for all the higher wants and for health and recreation is still extremely small. Civilization has developed the higher wants, but improvements in the distributive processes of industrial society have not kept pace with the development of these wants.

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**Literature.**—Devine, *Economics* (which lays special emphasis upon consumption, endeavoring to make it the central thing in the discussion); Patten, *Consumption of Wealth, Stability of Prices, Theory of Social Forces*; Roscher, *Political Economy*, English translation, Book IV; J. B. Say, *Political Economy*, American edition, Book I, chapter xv.



**PART VI**  
**PUBLIC FINANCE**





## CHAPTER I

## INTRODUCTORY

EARLIER economic treatises had no special part devoted to public finance, but usually included a few more or less valuable observations on taxation under some more general head, such as "functions of government," or "consumption." When the treatment was included under consumption, it was implied that government consumed, but did not produce, and such a sage remark as this embodied the economic wisdom of many a text-book: "That tax is best which is least in amount!" The development of economic science in recent years has been so rapid that arguments against any discussion of finance in an elementary treatise are now likely to take this shape: "The subject of finance is so truly immense, and its peculiarities are so many and so far-reaching in their character, that it is better to make a separate science of it, at least a separate volume of a larger whole, and not to enter upon topics which cannot adequately be presented in short space." It is true that the difficulties of one who would say anything about public finance in ten or a dozen pages are not a light matter; yet, on the other hand, it does not seem scientifically satisfactory to pass over one of the most important parts of political economy without a word. Indeed, it is not necessary. An impression of the nature and scope of finance may be presented to the reader without any attempt to enter into details, which in so short a space would be simply confusing, and even misleading.

**What is Public Finance?**—Public finance is often defined as the science which deals with the acquisition of the public revenues, with their administration and their expenditure. Regarded not as a science by itself, but as a part of political economy, the definition must be correspondingly changed.

In speaking of the subject, we often, perhaps generally, say

simply finance, instead of public finance, but as the expressions private finance and private financiering, which have a very different meaning, are also used, public finance may properly be employed as more explicit. The use of the word here given is that which corresponds to the same word in the languages of the continent of Europe, and is that which is found in the most careful English authors. Curiously enough, a careless employment of the word finance, which renders it equivalent to a discussion of money and banking, has become too common. We thus have popular works which profess to treat of finance and yet say nothing about it, for money and banking belong to another part of political economy.

**Significance of Finance.**—The business of government is the largest business in any great modern nation. A man died a number of years ago who left to his family two hundred millions of dollars, and his fortune was spoken of as colossal. To-day the annual revenues of our various governments in the United States, federal, state, and local, are six times that amount, or about twelve hundred millions of dollars. The capitalization of the Western Union Telegraph, one hundred millions or more, is considered enormous, but the surplus revenue of the United States government above the necessary expenditures for a single year has more than once equaled that sum.

**The Independent or Sub-Treasury System.**—The business of government is so large and so widely permeating in its character that it affects vitally every other business in the country. If our government received a large surplus in money every year and kept it from circulation, we would shortly have a stringency in the money market which would produce a terrible panic. It, is in fact, this, among other things, which renders a surplus federal revenue so difficult a problem. The United States alone among nations locks up its money. This is a feature of what is called our independent or sub-treasury system. The federal revenues flow into these sub-treasuries and can regularly get out only in payment of claims on the United States, whereas other governments have some kind of connec-

tion with banks, usually national banks, and do not take out of circulation the money received. It has more than once become necessary in the past to pay interest on the federal debt—the bonds—before it was due, in order to restore the money to circulation, and time bonds have been purchased at a premium before they were due in order to put the money into circulation. Over \$30,000,000 was thus paid out by the Treasury during the fiscal year ending June 30, 1900. It has also been deemed necessary by the Treasury Department to leave public money on deposit with national banks in order to avoid its withdrawal from the money market, although such a proceeding is somewhat irregular and contrary to the spirit, if not to the letter, of the law which established the independent treasury.

**Government Business.**—We have another range of considerations connected with the financial affairs of government. Government is to-day the largest employer of labor in the country, and all other employers and employees are more or less affected by the manner in which it treats its employees. Shall government as employer be influenced by the demands of ethics? Undoubtedly. As government is an ethical person it ought to be the model employer, insisting upon justice in service and granting justice in conditions of service and in its remuneration.

**Government Expenditures.**—The importance of finance becomes even more apparent as we gain familiarity with the magnitude of the revenues and expenditures of governments in modern times. The fact is often cited that the expenditures of England from 1685 to 1841 increased forty times, while the population trebled; but this is only one of hundreds of facts, all equally striking. The increased expenditure is found alike in every modern nation. The French budget, as the detailed statement of revenues and expenditures is called, showed expenditures of more than one thousand millions of francs in 1828, for the first time, and there was general alarm on account of the large expenditures; but since that time no French budget has called for smaller expenditures, while in

1860 they amounted to two thousand millions of francs, and since then they have never been less than that sum. In 1877 they were over two thousand six hundred millions, and, adding local expenditures, over three thousand millions. To-day the total expenditures are about four thousand millions a year. The expenditures of Great Britain decreased after the Napoleonic wars on account of cessation of war expenditures, which are always abnormal in amount; but we notice a steady tendency to increase since 1833, as indicated by these statistics: 1833, £48,786,047; 1843, £55,360,511; 1859, £64,805,872; 1874, £73,211,815, and including payment for Alabama award, £76,328,040; 1875, £74,328,040; 1880, £84,105,754; 1885, £89,092,883; 1890, £86,150,000; 1895, £94,175,000; 1899, £108,150,235. The local expenditures of Great Britain, as of all other countries, have also been increasing even more rapidly than national expenditures.

The following table shows the increase in the federal expenditures of the United States at various periods since 1828:

| Years.    | Civil establishment. | Net ordinary expenditures. | Net ordinary expenditures, including interest, but not expenditures on account of the public debt. |
|-----------|----------------------|----------------------------|--|
| 1828..... | \$3,676,053          | \$13,296,041               | \$16,394,842   |
| 1844..... | 5,645,184            | 20,650,108                 | 22,483,560   |
| 1860..... | 27,977,978           | 60,056,754                 | 63,200,875   |
| 1887..... | 85,264,825           | 220,190,603                | 267,932,180  |
| 1897..... | 90,401,267           | 327,983,049                | 365,774,159  |
| 1900..... | 105,773,190          | 447,553,458                | *487,713,791   |

The following table shows the increase in expenditures of the federal government from 1796 to 1887, the increase in expenditures of the fourteen states of 1796 during the same period, and finally, the increase in expenditures of all our states up to 1887:

\* It is to be observed that the expenditures of the Post Office Department are excluded in this table in so far as they are defrayed from postal revenues. In 1900 the postal revenues amounted to \$102,354,579.

|   | 1796.       | 1887.         |
|---|-------------|---------------|
| Federal expenditure .....                             | \$5,790,651 | \$267,932,180 |
| Expenditure for civil government in states mentioned. | 1,000,000   | 65,000,000    |
| Expenditure of all the states.....                    | 1,000,000   | 101,534,523   |

The state taxes of Ohio were nearly forty-nine times as great in 1899 as in 1826, while the taxes for local purposes were more than one hundred and thirty times as great.\* The local taxes of New York increased fourteen fold between 1827 and 1887.

These increased expenditures are not due to dishonesty. Probably, on the whole, administration of government has improved rather than deteriorated during the present century, and where government is most undoubtedly honest we find larger increase than in many other places. The administration of most American cities is inefficient and too often corrupt, but the administration of English and German cities is, as a rule, unquestionably pure, and that of German cities is conducted by men trained for this work. Yet the expenditures of these cities appear to have increased as rapidly, and in many instances, in Germany at least, more rapidly, than those of American cities. We are dealing here with world-wide phenomena. The explanation is easy, and proves what has already been stated in this book, that while government activity is wiser than previously, it was never before so extensive and important. The functions of government are measured in a rough sort of way by expenditures of government, and after we have made due allowance for depreciation of money and other counteracting forces, we must admit that the present generation, and still more the present century, has witnessed a marvelous and, on the whole, beneficial extension of the business of government, accompanying a diminution in petty interference with individual action. Public schools will readily occur to one as a new source of expenditure everywhere in the civil-

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\* This result is secured from the auditor's report by deducting from all taxes the amount of state taxes, and thus obtaining the local taxes. For reasons which cannot be here explained this may lead to errors of some importance, but the accuracy is sufficient for present purposes.



ized world. Sewerage, sanitation, gas and electric lights, public parks, public baths, public libraries—all these are among new items in the budgets of cities. Fine state universities all over the world are being supported by enlightened democratic sentiment out of public funds. Already some of the greatest American universities are among the state universities of the West. The rapid advance of these universities has fulfilled the prophecy of the author, as made in the 1889 edition of this work, even more quickly than he had anticipated. Expenditures for works of art are common. This has been especially true of Europe, but Boston, New York, and other great American cities make increasing contributions for art galleries and similar purposes. In fact, American advance in this matter has been particularly rapid and gratifying in these last years of the century. Expenditures for police have recently become enormous. It is a disgrace to some American cities that their police costs as much as their public schools, though it is in keeping with the notion that government must only repress and must not prevent wrongdoing. It is a little more than half a century since the old constabulary in England was replaced by a regular police force, the change being made by the government of Sir Robert Peel; from whose connection with the movement the police are called sometimes “bobbies” and sometimes “peelers.”

With some unfortunate exceptions these increased expenditures of governments are a sign of health, and do not, when fairly considered, reveal any tendency on the part of governments to absorb an undue proportion of our industrial life.

**Comparisons of the Expenditures and Revenues of Governments.**—Comparisons of the expenditures and revenues of different governments are misleading unless made with care. The United States, Germany, and Switzerland are federal governments, while France, Italy, Great Britain, and most countries are single or unitary states. What the central government of France does embraces what in federations is done by both federal and state governments. But even when this is borne in mind, many other facts require attention. What in

one country is done by a single city, may in another country be in whole or in part the work of a province or state. We must also ask in every case of comparison, "What is received in return for what is paid out?" In Baltimore the mediæval custom obtains of compelling everyone to sweep the street in front of his house—a most expensive and wasteful proceeding, yet one which does not appear in the budget of municipal expenditures. It costs many times what it would if done by a well-organized municipal service, which would nevertheless increase taxes. In this case, therefore, increased taxation would be a saving. We must ask in comparing municipal expenditures: "Are streets well paved, well cleaned, and in the summer well sprinkled with water? Are there provided for the citizens, schools, libraries, art galleries, and the like?" We must further distinguish between expenditures and revenues from taxes, because there are other sources of revenue than taxation. American city governments cost much in taxes in proportion to what they give, because they neglect these other sources of revenue. Frequently European cities, instead of paying for services like gas, electric lights, etc., make them a source of revenue. A few years ago, it cost the taxpayers of Berlin less to govern the city and to provide its magnificent schools of all grades, to pave the streets—better than they are paved in any American city—to furnish parks, and to do a great many things which we have not attempted, than it did those who lived in Boston to govern their city, though it was less than half the size of the German capital.

**Revenues of Government.**—There are three main permanent and regular sources of revenue. These are productive domains, industries, and taxation in the large sense of the term, including fees and special assessments. There is one chief temporary and limited source of revenue: namely, loans, which must be repaid out of the other three. There are also various minor sources of revenue, such as gifts, escheats—or property which falls to the state in default of heirs—and "conscience money"—a term applied to money sent without name by those who have defrauded the government.

Gifts amount to more than is ordinarily supposed, although, of course they are relatively a small matter. Formerly gifts were frequently made for general expenditures of government. Less than a quarter of a century ago a citizen of New Jersey left the United States nearly a million dollars to be used in paying the federal debt. But gifts are now more generally made for special purposes, as when Mr. Smithson left the United States government half a million dollars to be used in the foundation of the Smithsonian Institution for the advancement of science. A philanthropic American millionaire has given large endowments to city libraries in our own country and abroad. A Maryland citizen a few years ago left to one of the counties in his state nearly a hundred thousand dollars for the improvement of its public roads. While the writer was a student in Heidelberg a fine road was being made in that city from the proceeds of a private gift. These are simply illustrations. Public schools receive many gifts, but neither as many nor as important gifts in the United States as do schools and other institutions which have been founded on private endowments. In other countries the case appears to be different. France, and particularly Paris, has received large gifts for such institutions. When our governments become better they will undoubtedly receive greater and more numerous gifts.

**Productive Domains** yield considerable sums in Germany. It is generally thought that governments should part with agricultural land. Not a great deal of arable land is retained by governments, although there is not as strong a tendency to part with what remains as there was a generation ago. Some time ago, German states began to sell off their landed domains, forests excepted, because it was supposed that private parties could manage them better. But later experience seems to throw doubt on this assumption. Instead of being sold outright, land may be kept and leased. Thus the title to our American Western domains might be kept by the United States or vested in our separate states and the use parted with for a period until we gain further light on the best form of

industrial organization. It is interesting to notice that a more conservative policy in the matter of sales of public land is now meeting with favor, particularly on the part of some of our Northwestern states. In the case of school lands, some of these states have by their constitutions and statutes provided that such lands must be leased, and if sold at all, must be kept for a higher price than they would now bring. But no one would like to see our American states or the federal government engage extensively in agriculture, as things are at present. This, of course, is not opposed to the continuance or extension of the present system of model farms and agricultural experiment stations.

Industries, except those of a monopolistic nature, have not, as a rule, succeeded well as government undertakings. Model industrial establishments, however, may be maintained, in the manner of our model farms. Some important industries, like the manufacture of fine china, took their origin in government establishments. Natural monopolies may be made to yield a large part of ordinary public revenues, especially in large cities, but ordinary manufacturing industries should be rejected from the field of government business. Agriculture, like manufactures and commerce, is properly the domain of private enterprise.

**Public Debts.**—Great national debts are something comparatively new in the world's history, their origin, indeed, being as recent as the reign of William and Mary in England. How important they now are is apparent in this quotation from Professor Henry C. Adams's admirable work on *Public Debts*: "The civilized governments of the present day are resting under a burden of indebtedness computed at \$27,000,000,000. This sum, which does not include local obligations of any sort, constitutes a mortgage of \$722 upon each square mile of territory over which the burdened governments extend their jurisdiction, and shows a per capita indebtedness of \$23 upon their subjects. The total amount of national obligations is equal to seven times the aggregate annual revenue of the indebted states. At the liberal estimate of \$1.50 per day, the payment



of accruing interest computed at five per cent would demand the continuous labor of three millions of men. Should the people of the United States contract to pay the principal of the world's debt, their engagement would call for the appropriation of a sum equal to the total gross product of their industry for three years; or, if annual profits alone were devoted to this purpose, they would be enslaved by their contract for the greater part of a generation."

Alarm has often been expressed on account of these debts. On their present gigantic scale they are undoubtedly a misfortune, and should be reduced as soon as possible. No serious apprehension seems to be called for, however, so far as Germany, England, and the United States are concerned. The productive property owned by Germany is more than sufficient to pay her debts, the railways alone in several of the German states paying the entire interest on the debts and even leaving a surplus. England is gradually making headway against her burden of debt, and the author's investigations have shown that American states and cities, as well as the federal government, are rapidly extinguishing their debts. The state debts are small. Many states owe nothing; in others, the debt is merely nominal, all the bonds being owned by the state. A few Southern states only have within recent years had trouble with their debts. Our cities, too, are in this respect placing themselves on a solid basis. In the main, Americans, with their unparalleled public credit, may feel warranted in optimistic views, so far as public debts are concerned.

**Constitutional Limitations.**—There is a tendency—springing out of fright which was partly premature—to place undue constitutional restrictions upon the power to create debts. This tendency ought to be checked. It places states and cities at a disadvantage as compared with private corporations. It also tends to throw into the hands of private corporations all those enterprises which cannot be paid for out of one year's revenues, but which nevertheless properly belong to the public. Gas works afford an illustration of this statement. Moreover,



when great improvements, which are to last for generations, are to be effected, it is but proper that part of the burden should be borne by taxpayers in future years, and this can be effected only by loans. At the present time excessive limitations, unworthy of a free people, make it impossible for some states to improve their own property. Would it not be wiser to provide for the extinction of all debts within thirty-five years—or say forty as a maximum—that the present may not unduly burden the future? Special precaution should be taken against hasty action. In many cities no loans can be made until the people have by vote approved of them. One of the most distinguished of the mayors of American cities has expressed the fear that even with universal suffrage such a rule would tend to ultra-conservatism and would prevent really needed improvements. The writer hardly thinks this fear warranted by experience.

**Land Nationalization and Municipalization.**—A large number of American citizens are to-day adherents and devoted advocates of a scheme for entirely abolishing taxation, as that word is ordinarily understood to-day. The scheme is that proposed by the late Mr. Henry George, a man of wonderfully earnest human sympathies and of very strong and sincere convictions. The proposed governmental policy of finance, to which reference has just been made, was, perhaps, never stated more clearly and concisely than in the following words, written by Mr. George and printed in his own organ, *The Standard*:

*"The Standard* advocates the abolition of all taxes upon industry and the products of industry, and the taking, by taxation upon land values, irrespective of improvements, of the annual rental value of all those various forms of natural opportunities embraced under the general term, Land.

"We hold that to tax labor or its products is to discourage industry. We hold that to tax land values to their full amount will render it impossible for any man to exact from others a price for the privilege of using those bounties of nature in which all living men have an equal right of use; that it will

compel every individual controlling natural opportunities to utilize them by employment of labor or abandon them to others; that it will thus provide opportunities of work for all men, and secure to each the full reward of his labor; and that as a result involuntary poverty will be abolished, and the greed, intemperance, and vice that spring from poverty and the dread of poverty will be swept away."

It is here definitely proposed that the state shall take the pure economic rent of land, and the claim is made in explanation and justification of the policy that it will abolish poverty. Such a policy might, indeed, prevent people who do not care to use their land from keeping it out of the hands of those who would use it, but how it would bring about all the predicted blessings, it is difficult for most people to understand. With the best will and with every desire to be unprejudiced, the writer has never yet seen how pure economic rent of agricultural land can be separated from the annual value of the improvements on and in the land. But apart from all this, the appropriation of economic rent by the public without compensation to present owners will never, in the writer's opinion, appeal to the conscience of the American public as a just thing. No abstract reasoning, based on assumed natural rights, will persuade a modern nation to take such a step. This honestly and earnestly advocated policy is one of many illustrations of the danger of basing social reasoning on any theory of "natural rights."

In cities it is easy to separate pure economic rent from rent for improvements. In fact, as the author has stated elsewhere in these pages, such separation is frequently made in cities to-day. The principal evils of private land-holding are seen in cities, and the objections to land nationalization do not wholly apply to land municipalization. Many will favor the latter who reject the former, but even in this matter one should proceed cautiously. No confiscation should for a moment be tolerated, but if great and expensive changes are desired, the burden should be diffused by means of inheritance and other taxes throughout the community equitably.

**Literature.**—Adams, *Finance and Public Debts*; Bastable, *Finance*; Cohn, *Science of Finance* (translated by Veblen); Daniels, *Elements of Public Finance*; Ely, *Taxation in American States and Cities*, chapter iv, Part III (for some cautious steps in land municipalization); Henry George, *Progress and Poverty*; Plehn, *Introduction to Public Finance*; Seligman, *Essays in Taxation*.

## CHAPTER II

## TAXATION

**Private Property.**—Just as the State—using the word “State” in its generic sense to include our federal government as well as that of the separate commonwealths—determines what shall be private property, so, too, it determines the conditions of the existence of private property. Nowhere has there ever existed any such thing as absolute private property. The rights of private individuals have always been of a more or less limited nature, and among the rights reserved by the people in their organic capacity will be found in every civilized state the right to take, for such purposes as the lawmaking power may deem fit, a portion of the wealth produced by its citizens. The aim, of course, should be the promotion of the public welfare.

As has been said, there are no limitations upon the right of the state to take private property. It is said on high authority that as the state for its purposes can require us to give up our lives, so it can also ask us to surrender our private property. John Stuart Mill holds that public utility is the only basis on which private property can rest, and he bases his argument against socialism on the ground that the public welfare is best served by private property in the greater part of the instruments of production.

Constitutions in the United States are the basis of the institution of private property, and thus largely control taxation, but constitutions themselves of course change from time to time and are but one kind of law—the fundamental law—to which other laws must conform.

We see, then, that the right to tax is a part of the right of private property. The two have grown up together, and are alike defended by constituted authorities. It may, therefore,

be said that to attack the one right is to attempt to invade the other. Curious as it may seem, Henry George, while denying the right of private property in land, disputed also the right of government to lay taxes, as ordinarily understood, and called taxation robbery.

Our conception of taxation removes a multitude of confused notions. Lawyers often say that taxation is a payment for protection, yet their law books tell them that those laws which apply to payments and to debts arising out of failure to make payments do not at all apply to taxes. Again, it is sometimes attempted to defend public schools on the ground that they add to the value of private property, as if that consideration were supreme and final, whereas it is solely a question of the welfare of the land. Property is but a means to an end, and the end is man. The elements of private contracts are not present in taxation.

**Government a Partner in Production.**—Taxes have been defended on still another ground. It is said that government participates in all production, and is as much a factor in the creation of wealth as is land, labor, or capital. This is indeed so, for without government—if such a state of things were for us conceivable—we would have anarchy and a return to barbarism, which would destroy all production. The argument continues by asserting that, as government is a factor in production, it is entitled to a share of the wealth produced. This, too, is a sound position, but it must not be overlooked that peculiar principles regulate the share of government. The portions which go to land, to labor, and to capital are determined, in a great measure, by voluntary agreement, whereas government by virtue of its own sovereignty determines what share it shall take. It may be asked, then, What guarantee have we that government will not take an undue share of the annual income of the country? And the answer must be, The same guarantee that we have that government will not abuse its other powers; the guarantee that inheres in the moral sense and in the self-interest of those who govern. Government is not, as we too often thoughtlessly regard it, something



superimposed upon the people, something extraneous to them. In a true republic, at least, it is rather the people themselves in their organized capacity, and the question of a guarantee against undue exaction by government is only this, Will the people injure themselves, or suffer themselves to be injured? Every defense of self-government rests upon the hypothesis that they will not thus injure themselves or submit to injury at the hands of others.

**General Principles.**—Just as it is essential that any reform of taxation should be based on a clear conception of taxation, so it is further necessary, if we would act well, that we should proceed to a correct understanding of some general propositions applicable to taxation.

First of all, it is to be remembered that taxation, when viewed in its results, may be looked upon as a blessing rather than an evil. This sounds paradoxical, does it not? Nevertheless, it is true, as will be found on an examination of the historical development of constitutional governments, that taxation was the instrumentality whereby the common people obtained their liberties. Monarchs needed revenues, and were obliged to ask for them; as a matter of fact, they could not secure sufficient and regular revenues otherwise. These revenues have been granted by the people conditionally. "Yes," the people said to their sovereigns, "we will grant you the revenues if you will grant us our demands." Thus step by step popular rights have been secured. The total abolition of taxation would undoubtedly be one of the most effective and most dangerous blows to popular government which it could well receive.

**Taxation Increases with Freedom.**—Very generally increased freedom is accompanied by increased taxation. Compare despotic Russia's state expenditure for schools, which a few years ago amounted to only thirteen cents per capita, with that of the enlightened and free republic, the state or canton of Zürich, in Switzerland, which at the same time amounted to about one dollar and twenty-five cents per capita. It may be more correct, however, to say that governmental ex-

penditures are large in all civilized nations; for, as we have explained, expenditures are one thing and taxes are another, because there are other sources of revenue than taxation.

Small expenditures mean small results, and no other money we pay out yields larger returns than does money paid in taxation, provided always that it is prudently expended by a good government. Let a small house-owner in a city like Buffalo, who pays, say, fifty dollars a year in taxes, reflect on what he receives in return. Dollar for dollar, what other expenditures are there for which he receives so much? Streets, libraries, free schools, protection to property and person, including that afforded by the health department, pleasure grounds royal in their magnificence—all these are placed at his service. What private corporation ever gave one fifth as much for the same money? When we compare various countries at the present time we find that expenditures of barbarous and backward countries are small. In some, doubtless, there is no real taxation, for the tribute of the East is different in its nature from taxation; it is more like ransom—something exacted of a subjugated people, not self-imposed taxes. In the same way if we compare the past with the present, we shall find large increase in expenditures going along with advance of civilization.

**Taxation and Production.**—Another advantage of taxes is mentioned by the Scotch political economist, McCulloch, and may perhaps be best described in his own words: "They stimulate individuals to endeavor, by increased industry and economy, to repair the breach taxation has made in their fortunes, and it not infrequently happens that their efforts do more than this, and that, consequently, the national wealth is increased through increase of taxation.

"But we must be on our guard against an abuse of this doctrine. To render an increase of taxation productive of greater exertions, economy, and invention, it should be slowly and gradually brought about, and it should never be carried to such a height as to incapacitate individuals from making the sacrifices it imposes by such an increase of industry and econ-

omy as it may be in their power to make, without requiring any very violent change in their habits. . . . Such an excessive weight of taxation as it was deemed impossible to meet would not stimulate but destroy exertion. Instead of producing new efforts of ingenuity and economy, it would produce only despair.”

Compare with this the statement quoted by Rand in his *Economic History since 1763*, from Walpole's *History of England*: “Even the taxation which the war necessitated had stimulated the manufacturers to fresh exertions.”

Let us consider another paradox: *No country was ever yet ruined by large expenditures of money by the public and for the public.* Countries have been ruined by evils connected with taxation. Robbery and extravagance have accompanied both expenditures of government and taxation, and these have ruined great nations. Rome is an instance of this. The case of France before the Revolution is also instructive. Books are full of the evils of burdensome taxes in pre-revolutionary France, but the truth is that the total amount raised by taxation in France was small as compared with nineteenth century taxation. The trouble was that the burden was unjustly distributed, the wealthiest classes shifting the taxes to the shoulders of the weak and defenseless,\* while the proceeds were largely expended for the military establishment and in maintaining a corrupt and extravagant court. France has since then prospered under heavier taxation. The taxes over which our forefathers in this country and in England fought, bled, and died were not large, and the taxes in themselves were not the real grievance. It was evils connected with taxation against which they successfully struggled.

**Public Parsimony.**—Let us next turn our attention to some of the evil results of undue economy, or, more properly speaking, niggardliness.

In Philadelphia the death rate from typhoid fever rose in

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\* Vauban, one of the greatest of the French economic writers of the eighteenth century, brings this out clearly in his work, *Projet d'une dixme Royale*, published in 1707.

the winter of 1898 to a point almost unparalleled in the city's history, and this despite the great advance in sanitary science, which is the boast of our day. Yet it was everywhere recognized that by a proper expenditure for water supply the evil could have been avoided.

Short-sighted parsimony in cities is continually leading to waste and destruction. Our great cities are now failing to provide sufficient school accommodations for children of school age, and large numbers are growing up to take their place among the ignorant and vicious poor. We can see in our national capital many results of the idea that that is the best administration which spends least. It is on this account that Congress has never yet made an adequate appropriation for the library of the Bureau of Education, which is doing so valuable a work. It is on this account that heads of bureaus will not ask for money which they know they could use for the public advantage. It is on this account that clerks have sometimes actually found it difficult to get blotting paper and pencils for their offices. When, some years ago, Congress reduced the appropriation for the national library building from ten to four million dollars—a mistake subsequently corrected—one Congressman, in advocating the more generous appropriation, said truly, "Ten millions is, after all, only a per capita expenditure of twenty cents." But another Congressman replied, "Twenty cents means three loaves of bread." Perhaps this was a bid for labor votes, but could demagogism go further? The best part of the press laments such unseemly parsimony, but it should remember that niggardliness is a legitimate outcome of the notion that that is the best administration which spends least.

We must guard against parsimony as well as extravagance. In at least one respect the former is the more dangerous, because it more readily conceals itself beneath the mask of patriotism. We praise a private individual who spends bountifully, when his expenditures are justified by the results. The case of a city should be similar. We must be very careful, very prudent. What is needed is a more careful examination of

particulars. We praise and we blame too much "in a lump." To cities and countries, as well as to individuals, does this proverb of Solomon apply: "There is that scattereth, and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to poverty." This danger of parsimony is emphasized by the author on account of the vast amount of nonsense frequently to be heard about the large expenditures of states and cities. More or less is wasted, to be sure, and more or less is stolen, but, after all, it is comparatively little; and we have found that governmental expenditures have increased most rapidly where there is not even a suspicion of corruption. They are looking for a Utopia who seek to reduce very greatly expenditures of modern states and cities. We can make no headway against a strong current of national life like that which brings about increased expenditures of governments. We must rather try to guide and direct it.

We have three main facts to bear in mind:

1. We must set our faces against all extravagance, jobbery, and robbery.

2. We must avoid the "too much" and the "too little." Prudent liberality will yield best results. We must look ahead. To conserve future interests is one of the special functions of government.

3. It is a hard thing for some to live under present burdens.

The remedies for the evils connected with taxation are in general of three kinds:

1. True economy, but not parsimony.

2. Better adjustment of the burdens of taxation.

3. Better utilization of public resources.

1. **True Economy, but not Parsimony.**—Economy, in the true sense of the word, means careful and prudent management, avoiding all waste and extravagance, but also avoiding parsimony. Economy is always needed, because our resources are limited in proportion to our true wants. We are prepared to indorse as strongly as others economy in public finance.

2. **Better Adjustment of the Burdens of Taxation.**—Our



national taxes fall chiefly on commodities, and taxes of this kind are generally called indirect and regressive. They are not proportioned to the value either of the property or of the income of citizens, and are very generally regarded as unjust to the poorer classes unless counterbalanced by other taxes which bear more heavily on the rich than on the poor and well-to-do.

Indirect federal taxes are of two kinds: customs duties, or taxes on imported commodities; and the taxes which collectively produce what is called our "internal revenue," including excise taxes—taxes on articles produced in the United States—and taxes on transactions, such as receipts, bank checks, promissory notes, deeds, and mortgages. Internal revenue taxes were until the outbreak of the Spanish war confined to a few products, like oleomargarine, tobacco, and intoxicating beverages, the two latter then yielding nearly all of the internal revenues. In order to raise the extra revenue needed for the prosecution of the war, new taxes were laid upon proprietary medicines, tobacco, spirits, and many forms of transactions, such as telegraph and telephone messages, and bank checks, and, most important of all, upon inheritances and bequests. These have been continued, and there is reason to believe that we shall be familiar with internal revenue taxation in its widened scope for some time to come, although a considerable reduction in the amount of the taxes and in the number of things taxed will probably be made. Among those who have studied the question there seems to be a general sentiment in favor of the retention of taxes on those articles, produced in the country, which were taxed by the federal government before 1897. The question of free trade and protection is not involved. When the national government depends exclusively upon revenues from taxes on imported articles the revenues are too uncertain and too irregular, and sometimes yield least when most is needed.

The state and city revenues are largely raised by taxes on property. Such taxes, and taxes on incomes, are called direct taxes. Property in states and cities is generally valued and

all taxed at a uniform rate. The difficulty is that real estate—that is, lands and houses—is visible, and can readily be found by tax assessors, while a great deal of property—say, one half of all property—is in the form of stocks, bonds, instruments of credit, and the like, and often cannot be found at all. The result is that real estate generally pays an undue share of taxes. Competent business men in Boston, including the president of the Boston Merchants' Association, Mr. Jonathan A. Lane, estimated a few years ago that in their city personal property was four times as valuable as real estate, although assessed for only one fourth as much.

In New York state the proportion of the state tax which was raised on personal property fell from twenty-five per cent in 1867 to less than twelve per cent in 1899. Yet the state comptroller, in his report for 1900, expressed a positive conviction that personal property in New York state to-day exceeds in value the real estate. In the same report it is stated that in 1897 personal property bore less than one tenth of the total burden imposed upon property by state and local taxation. Similarly, in the report of the Ohio tax commission of 1893 occurs this statement: "It is confidently believed that no appreciable part of the intangible property existing in the city counties is reached by our method of taxation." Yet since that same year—1893—according to the auditor's report for 1900, the valuation of personal property on the tax rolls had actually decreased nearly seven per cent by the year 1899, while the valuation of real estate had increased over five and seven tenths per cent. The result in New York and Ohio and elsewhere must be evident to all. While it is true that a good deal of personal property consists of stocks and bonds of railway corporations and other corporations already taxed, it is likewise true that personal property is not paying its proper share of taxes. The existing system places a greatly disproportioned share of the burden of the expenses of government upon those who are least able to bear that burden.

The problem is a better adjustment of the burdens of state and local taxes, so as to make those pay their share who own

invisible or easily concealed property; also so as to make that considerable class contribute something to the support of government who have little or no property, but enjoy, nevertheless, large incomes, sometimes larger than the accumulations of the lifetime of the ordinary man.

**Income Tax.**—An income tax has often been suggested as a suitable remedy. Our American experience, however, goes to show that under our political and constitutional system of government it is extremely difficult to frame an income tax law for one of our separate states of such character that it will reach incomes and prove even moderately fruitful of revenue. Income taxes have been tried by many American states, and it is scarcely too much to say that in experience they have proved farcical. On the other hand, the decision of our Supreme Court in 1894 declaring unconstitutional any practical scheme of income taxation has precluded the possibility of a federal income tax for a long time, if not permanently. This condition of things is regretted by many, inasmuch as the world's experience is increasingly favorable to this form of taxation. The contrast between an income tax and our general property taxes is most marked. The latter become worse and worse the longer they exist, whereas in the case of an income tax, wherever a rational one has been laid, as in Switzerland, Prussia, and England, the longer it lasts the better it works, and the more general is the popular approval.

**Inheritances and Bequests** can be made to yield more than at present without any infringement of the rights of individual property. A world-wide movement in the direction of a larger taxation of property as it passes from generation to generation is one of the most remarkable phenomena of our time which public finance has to offer. Generally speaking, the taxation increases in accordance with two principles, namely, as the property inherited becomes larger, and as the relationship of the person to whom it passes becomes more distant, distant relatives and strangers in blood ranking together. This movement has not gone so far in the United States as

elsewhere; nevertheless, some of our states tax at a low rate the devolution of personal property, even when it passes in direct line, as, for example, New York and Illinois, while the federal government imposes a rate of taxation on personal property, even in direct line, and rising to fifteen per cent in the case of large property inherited by a distant relative or a stranger in blood.

Collateral inheritances are taxed by several states—notably by New York, Illinois, and Pennsylvania—but why should collateral inheritance except by bequest be allowed at all except among near relatives? Why should third cousins inherit from one another at all unless money is left by will? Are third cousins nearer to one, or have they a juster claim upon one's bounty, than the town or city in which he has lived, and where he has been able to acquire a fortune? The extent to which intestate collateral inheritance is carried is a survival of the sentiment of the time when people lived in clans, and in our day is a ridiculous anachronism. Right and duty should be coördinated. Am I compelled by law to support an uncle who is unable by incapacity to earn a livelihood? Then I should inherit from him; otherwise, unless he leaves me property by will, it is at least open to question whether or not any part of his property should fall to me. The property should go to the state in the absence of near relatives when no will is made. By "near relatives" we mean those to whom relationship is a real vital matter. The enlightened English jurist, Jeremy Bentham, wished to restrict inheritance and extend escheat, and thus to abolish taxation altogether. This, however, is an extreme to which the author would be unwilling to go.

It is an interesting question in finance as to whether the taxation of bequests and inheritances should be by the federal or the state government. Several of the states had already in 1898 begun to develop the practice of such taxation. It is to be presumed that if the United States continues to tax inheritances, the movement on the part of the states may be checked.

**Technical Terms.**—Several terms must be explained which readers will meet in their studies in finance. Proportional



taxes are taxes in exact proportion to the property or income taxed. Progressive taxes are those in which the rate per cent increases with increasing property or income; as where one per cent is the rate on the first thousand dollars taxed, two per cent on the second thousand, and so on. Progressive taxation is often called graduated taxation. A tax is regressive when the rate per cent increases as the property (or income) taxed decreases. If a man with five thousand dollars is taxed only two per cent, while one with three thousand is taxed three per cent, the tax is a regressive one. Business-license taxes in Maryland, and generally in Southern states, are regressive. Indirect taxes are said to be, in their effect on the citizens, regressive. When we have one uniform rate of taxation, but unequal assessment, the wealthy being assessed relatively less than the well-to-do and the poor, we also have a sort of regressive taxation. A tax is said to be degressive when a certain sum is exempt from taxation, or when lower rates of taxation are laid upon amounts below a fixed sum, and all income above that sum is taxed at one uniform rate. If all incomes of six hundred dollars were exempt from taxation, while all incomes above that sum and only on that excess were taxed, say one per cent, it would be degressive taxation. Income taxes are often degressive. Degressive taxes are also called *progressional*.

**3. Better Utilization of Public Resources.**—By this is meant that public property and its use should be paid for. Cities and states should stop making presents to corporations. If street-car companies use the streets, they should pay for the privilege. This is sometimes done, but too often the public is robbed. The Baltimore street-car companies, as has already been stated, pay to the city nine dollars for every hundred they collect, but this is not enough. When five-cent fares are charged, street-car companies in great cities can sometimes afford to pay as high as forty or fifty dollars to the city for every hundred they collect. Similar principles should be applied to other corporations using streets, like gas, electric-lighting, and telephone companies. It is, however, still better



in most cases for the city to manufacture its own gas and electric lights and to provide itself with water. This part of our subject has already been sufficiently discussed for present purposes.

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**Literature.**—Seligman, *Progressive Taxation in Theory and Practice; Essays in Taxation; The Shifting and Incidence of Taxation*; Wells, *Principles of Taxation*; West, *The Inheritance Tax*.

## **PART VII**

### **THE EVOLUTION OF ECONOMIC SCIENCE**



## CHAPTER I

## INTRODUCTORY

THE explanation of economic life already given would in itself lead us naturally to look for a corresponding evolution of economic science, and this has indeed taken place. Every economic system, like every philosophical system, is to a greater or less extent a mirror in which are reflected the aims, the character, the time-spirit—in short, the entire life, national, mental, spiritual—of the period in which it arose and of any later period in which it has received support, and of the place where it arose and of any other place where it has gained support. A man can no more escape entirely the influence of his environment than he can lift himself over a fence by tugging at his boot-straps. One writer will reflect one part of the life of the people, a second another side of this life, and so on indefinitely. Thus we have a picture of the conflicting interests of the age. Dissatisfaction with an age and attempts at reform are likewise products of the time and place, and perhaps more clearly than anything else reveal its true character. This statement, however, must not be regarded as an expression of political fatalism, for it is freely conceded that the will of man is always a main factor.

These considerations show us the nature of the evolution of economic science and reveal to us the utility of the study of this evolution in the history of political economy. The present is a product of the past.

The history of political economy points out past errors and enables us, or should enable us, to avoid a repetition of them. It trains us in habits of economic reasoning. Political economy can never give ready-made answers to all the perplexing questions of practical life, and for this reason: the present is never quite like the past. Some new element is always in-

volved. Nevertheless, old mistakes are often still mistakes when tried again, and these can frequently be avoided by a knowledge of what has been. A study of the evolution of economic life and its proper science may reveal to us the course of progress. It may—indeed, it does—reveal to us powerful on-moving currents which it were folly to attempt to turn back, but which, nevertheless, can be guided and directed within certain bounds.

**Reasons Why the Science is of Recent Origin.**—Political economy as a distinct science began when there was first an attempt to treat systematically the general facts pertaining to the entire economic life of society, separating them from other facts as one branch of knowledge. This was first done in the latter half of the last century by writers of a French school whom we call Physiocrats. The science of political economy is, then, little more than one hundred years old.

Political economy did not, however, come at once suddenly into being. Economic ideas are found in all the greatest writers of the past on politics, philosophy, and religion, and these gradually grew and developed until they were separated out of a larger whole and constructed into a separate science.

The question is often asked, Why did not economic science, as a separate science, arise earlier in the world's history? An examination of this history gives the answer. Let us, for instance, take the case of the Greeks. Why did the Greeks not have a complete political economy? A second question will help us to answer the first. What have always been the two most fruitful sources of economic inquiry? They have been financial operations of governments and questions concerning labor. Now, great financial operations of governments are modern. The revenues of Athens at the beginning of the Peloponnesian War, in the fifth century before the Christian era, amounted to something like a million of dollars—a mere bagatelle in comparison with a modern national budget, which runs into the hundreds of millions. It has already been mentioned that national debts are scarcely two hundred years old. Taxes like those we know are also new. For over a century Rome was en-



tirely untaxed, and Cicero, in one of his works, speaks of taxation almost as we might speak of a reign of anarchy. And what about labor in olden times? Labor was despised. Aristotle thought that all industrial classes—employers and employees alike—were unworthy of citizenship. Yet this is not all; political economy deals with industrial relations, and these relations were far less numerous and less important in ancient times, as has been explained elsewhere.

When we pass on from Rome to the Middle Ages—the period following the breakdown of the Roman Empire—we find an unsettled condition of society, which would naturally retard the development of political economy. As other causes for the failure of the Middle Ages to develop a political economy may be mentioned the too exclusive devotion of scholars to religion and metaphysics, the absorption with ancient authorities, and the dread of originality. The great men of the Middle Ages had their own work, and this was the reconstruction of a civilization on the ruins of the Old World. Church and empire were the agencies for this reconstruction, and these absorbed the talent of the times.

At the close of the fifteenth century a new world in the Occident was discovered, which gave a new impulse to thought, and within two centuries forced new and strange economic phenomena upon the attention of Europeans. This new world has continued to force new phenomena of an economic nature upon the Old World even up to the present year, and has ever been a fruitful cause of economic study. •The new course of trade to the East, which followed upon the discovery of the route to India around the Cape of Good Hope by Vasco da Gama in 1498, must be mentioned as still another cause of economic inquiry.

The great Protestant Reformation in the sixteenth century effected radical changes in economic, political, and intellectual life, and with other causes gave rise to speculations which finally terminated in what is technically known in the history of political economy as the mercantile system.

## CHAPTER II

ECONOMIC IDEAS IN THE ANCIENT WORLD AND IN THE  
MIDDLE AGES

It is not proposed to present in this place a history of political economy—a task which would require a far larger work than the present—but simply to indicate in the briefest possible way the main currents of economic thought.

**The Orient.**—Little attention is usually given by economists to the East, partly because it is probably insufficiently appreciated, partly because its general life has been so imperfectly investigated and materials for knowledge are still so imperfect and difficult of access, and, finally, because our young science has found more fruitful fields still unworked. The ancient Eastern nations were theocracies, under the guidance of priests who prescribed duties and often methods of economic action, frequently going into details. The ethics of economics were somewhat cultivated, and such as they were they were reduced to practice. They entered into everyday life as our higher ethical principles unfortunately do not. We find in the economic ethics of the East frequent warnings against the sins of wealth, pride, and arrogance, and exhortations to a kindly treatment of inferiors. Thrift and temperance were encouraged, just weights and measures prescribed. A simple division of labor among economic classes took place, and these classes sometimes became estates. Indeed, Sir Henry Maine, in his work on *Village Communities*, says that in India to-day, with the exception of the two highest castes, “caste is merely a name for a trade or occupation.” Conservatism was held to be a sacred duty, and radical changes were considered rebellion against the divine law. With such a social code progress becomes almost impossible. National exclusiveness was a universal policy. Trades, commerce, and manufactures were held

in slight esteem, but agriculture met with more favor. The ethico-economic ideas of the Orient deserve special attention. The economic ideas of one oriental people, the Jews, have been fairly well preserved in the Bible. These should be studied more carefully than they have been by economists. Biblical views about usury, debt, and land tenure are especially important.

**The Greeks.**—The three writers among the Greeks who are most interesting to the economist are Plato, Aristotle, and Xenophon, and of these by far the most important is Aristotle.

Plato, in his *Republic*, describes a Utopia, his aim being to picture an ideal society in which the ills of society were to be corrected by a communistic state. He included a communism even of wives and children, thus going even further than do modern communists. Strange as it may seem, the communism of Plato admitted slavery, on which, indeed, his social superstructure rested as a base. Indeed, the ideal society of Plato was thoroughly aristocratic, for the benefits of communism were to be restricted to the higher orders. Plato was not animated, as are modern socialists, with a desire to elevate the masses to a position of independence, still less to one of rulership. The *Laws* of Plato is a more practical work. It aims to present not the best conceivable state, but only the best practical one, and deals to a greater extent with existing institutions.

From an economic standpoint Aristotle's principal work is the *Politics*, and it is indeed one of the most remarkable books in the world's history. Its influence is strongly felt to-day, for it was carefully studied by theologians of the Middle Ages, and through them entered into the thought and life of their time; and the thought and life of their time can be seen by the careful student to have entered in a thousand ways into the institutions of the nineteenth century. Gladstone, the great English statesman, was wont to say that the *Politics* of Aristotle was one of the three books from which he had learned most.

Aristotle combated the communism of Plato, and advanced in favor of private property arguments which we can hear any

day uttered as new and original truth. But Aristotle was no anarchist. He said that man is by nature a political being—more literally, a state being—and he accorded to the state large functions. Aristotle strictly subordinated the industrial life to the higher life-spheres of society. In this respect, as in many others, the most advanced political economy is a return to Aristotle.

Aristotle, as did the ancients generally, taught the sinfulness of interest. Money, he said, is barren. One piece of coin cannot beget another piece of coin; hence interest should not be allowed. This is only a part of his argument, but the space is too brief for further presentation. It should be remembered, however, that many of the arguments in favor of interest which are now heard would not hold for Aristotle's age.

Among the works of Xenophon there may be mentioned as of special importance the *Hiero*, the *Cyropædia*, and the *Revenues of Athens*. The first two are romances, describing an ideal state, and the third deals with the Athenian finances.

**The Romans.**—There is even less to be said about the Romans than about the Greeks in a history of the evolution of economics. True, their economic life was remarkable and instructive, exhibiting, as it did, the disastrous consequences of slave labor and of an excessive concentration of wealth, particularly of landed property. Pliny said that the great estates, the *latifundia*, caused the downfall of Rome. Moreover, the moral degeneracy of the empire was fruitful of economic consequences which deserve serious attention. Among these have already been mentioned wanton luxury and widespread poverty. But while the economic institutions of the Romans and the manifestations of their character in their economic life will repay investigation, the Romans themselves were not remarkable for independent thought. Their economic ideas, like their philosophical doctrines, were borrowed from the Greeks, and generally in the history of thought they occupy an inferior position.

Cicero, Seneca, and the elder Pliny are to be mentioned

among the philosophers whose economic ideas are noteworthy, and Cato, Varro, and Columella among the writers on agriculture.

Most important of all, however, are the jurists. Whatever may be its imperfections, the Roman law, the *corpus juris civilis*, is the most remarkable legal system the world has ever seen, and for training in careful and accurate statement is unsurpassed. As a training for economic studies Roman law is probably among the most valuable branches of learning. It gives us also invaluable information about the economic institutions and measures of Rome.

**Christianity.**—The economic ideas of Christianity come next in point of time, but not next in the order of evolution. Christianity seems to be interposed here out of the logical order, and some will regard this as a proof of its divine origin. Suddenly we pass from weak and imperfect ideas, many of which are now quite antiquated, to a sublime ideal of economic life which we are only beginning to try to realize. The most modern movement in economics, as it is in part a return to Aristotle, may also be regarded as in part a return to the teaching of Christ, although yet far from the ideal which he placed before men. Christianity asserts the honorableness of toil, which is the exact opposite of what the Greeks and other ancients had taught. Christ and his apostles were workingmen whom Aristotle would have deemed unworthy of citizenship. This had, both directly and indirectly, tremendous economic consequences. It has, among other things, been a constant force pushing in the direction of the emancipation of labor. The doctrine of the brotherhood of man is a powerful economic factor. Let us bear one another's burdens. Let each one bear his own burden also. Let us be sure, so far as we may, not to be a burden to others, but at the same time let us help others. This tends to the conservation of human energy and to the development of man's physical and other powers.

The duty and the right of general enlightenment spring from Christianity. If humanity is so precious, as Chris-



tianity teaches, all the faculties of each person should be developed to their utmost. Education, with its undoubted economic value, follows necessarily.

Benevolence, which, Professor Sidgwick, in his *History of Ethics*, says, is the distinctive teaching that Christianity added to ethics, tends to the maintenance and increase of efficiency of men and of the general productive power.

The prohibition of luxury implied in the command to love our neighbor as ourselves tends to the preservation of nations. Self-sacrifice and self-control in this as in other directions have high economic value.

**The Middle Ages.**—Little can be added, in our bird's-eye view of the subject, to what has already been said about economic speculation in the Middle Ages. The religious and moral aspects of economic questions were considered by the theologians, who absorbed the learning of the time, and the result of their labors is embodied in the canonical law—*corpus juris canonici*—which contains what we may regard as the Church doctrine of practical law in the Middle Ages. The most remarkable writer, from an economic standpoint, as well as from other standpoints, who falls within this period was undoubtedly Thomas Aquinas, the study of whose writings has been urged by the present pope. Aquinas treated chiefly two economic topics: just price—*justum pretium*—and interest. The conception of just price still lingers. The doctrine that all interest is sinful was in the sixteenth century modified and became the doctrine that excessive interest is sinful, and thus in later times usury has meant simply excessive interest, and not as formerly any interest at all. The teachings of Aquinas still exist in a modified form as a force in our thoughts and in our laws. Among his writings were commentaries on Aristotle, who was his spiritual father. In fact, the whole philosophy of Aquinas was Aristotelianism modified by Christianity.

Professor Roscher, in his *Finanzwissenschaft*—the science of finance—has said that the schoolmen of the Middle Ages asked in their economic inquiries, What is ethically allowable?

that in the development of political economy we pass on to the fiscal jurists, who asked, What is legally allowable? that the economic writers and teachers of the early modern period, the mercantilists and the cameralists—as the teachers of economic ideas to German officeholders were called—asked, What is useful? and that, finally, in most modern times economists have reached a point from which they can see that real and permanent utility can be attained only through what is both legally and morally allowable. In other words, law, morality, and utility must harmonize.

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**Literature.**—Ashley, *An Introduction to English Economic History and Theory*, Part I, “The Middle Ages,” Part II, “The End of the Middle Ages;” Cossa, *Guide to the Study of Political Economy*; Ingram, *History of Political Economy and History of Slavery*; Sayce, *Babylonians and Assyrians: Life and Customs*.

## CHAPTER III

## ECONOMIC IDEAS IN MODERN TIMES

WE now pass on to economic systems which have already been treated more or less fully in the present work. In this place we can only gather together the threads and try to form a brief continuous narrative.

**The Mercantilists.**—The mercantile system, also called by the names Colbertism, restrictive system, and commercial system, obtained from the early part of the sixteenth century until late in the eighteenth century, and its influence is still felt. Mercantilism is not, strictly speaking, the product of a school of political economists, but rather the name given to that economic policy of statesmen and to those detached economic views of writers which prevailed during this period. Most prominent among the statesmen who were mercantilists may be named Colbert, of France; Frederick the Great, of Prussia, and Cromwell, of England. Serra, an Italian, early in the seventeenth century presented a moderate and systematic statement of mercantilism in a work entitled *A Brief Treatise on Causes which make Gold and Silver Abound where there are no Mines*. Thomas Mun, in England, a generation later, wrote a valuable treatise from the standpoint of the mercantilists, called *England's Treasure by Foreign Trade, or the Balance of our Trade the Rule of our Treasure*, while Sir James Steuart's *Inquiries into the Principles of Political Economy*, published in 1767, may be regarded as closing the development of the theory of mercantilism. The one idea common to all mercantilists was this: a nation ought to strive to export a quantity of goods of greater value than it imports, in order that the difference may be imported in gold and silver and the home supply of the precious metals be thus increased. Everything else was subordinated to this policy.

A favorable balance of trade was the aim, and we therefore speak of their policy as being based upon "the balance of trade theory." Tariffs were laid with this in view, and protectionism was encouraged. But their protectionism was different from modern protectionism, for it was confessed, even openly, that the aim of the mercantilists was to make both agricultural products and labor cheap, in order that manufactured articles might be cheap and a large sale of them abroad effected. The exportation of raw material was often entirely prohibited. To the mercantilists political economy was the art of the statesman in its economic aspects. Sir James Steuart, in the work to which reference has been made, gives the following definition of political economy, which finely illustrates this attitude of the school at its best, and in which the old spelling, pointing to the origin of the word, was still retained: "Economy in general is the art of providing for all the wants of a family with prudence and frugality. . . . What œconomy is in a family, political œconomy is in a state. . . . The great art, therefore, of political œconomy is first to adapt the different operations of it to the spirit, manners, habits, and customs of the people, and afterward to model these circumstances so as to be able to introduce a set of new and more useful institutions. The principal object of this science is to secure a certain fund of subsistence for all the inhabitants, to obviate every circumstance which may render it precarious, to provide everything necessary for supplying the wants of the society, and to employ the inhabitants (supposing them to be freemen) in such a manner as naturally to create reciprocal relations and dependencies between them, so as to make their several interests lead them to supply one another with their reciprocal wants."

The fine historical sense disclosed in Steuart's definition, sharply contrasted as it is with the abstract speculations of the French physiocrats, should be noticed. Institutions must first be made to conform to the genius of a nation, and then the spirit, habits, and customs of the nation must be so modified that new and better institutions can be introduced. It

is not possible to neglect the past, or to legislate as if it did not exist.

**The Physiocrats.**—As has been said, the physiocrats were the first to present a rounded-out system of economic doctrine, and may thus be called the founders of our science. Quesnay, a physician; Gournay, a merchant, and Turgot, the statesman, are their three principal authors. The physiocrats taught the doctrine of natural laws, and as a consequence loudly proclaimed the maxim, *laissez faire*. They taught, furthermore, that agriculture is the only pursuit which adds to the wealth of the country, and that additions to wealth must come from pure economic rent. In consequence of this they advocated the doctrine that all taxes should be levied on rent, and that all other existing taxes should be at once abolished. All taxes must, they thought, in the end come out of rent anyway, and it is better that the state should exact them from the landlord at once, instead of waiting until they have passed through five or six hands and various profits have added to their amount. Naturally and consistently the physiocrats were ardent champions of free trade.

**Adam Smith.**—Adam Smith, of Scotland, published in 1776 the most influential economic treatise ever written. It was called *The Wealth of Nations*. Adam Smith is usually, though perhaps without justice to the physiocrats, called the father of political economy. His writings, critically examined, are found to be very similar to those of the physiocrats, but further developed and modified by his Scotch training and habit of mind. We find in Adam Smith free trade, but less extremely stated; *laissez faire*, but with more careful limitation; and the doctrine of natural laws and harmony of the working of the selfish interests, but more guardedly stated. Adam Smith, however, regards all industrial pursuits which are concerned with material things as truly productive, and does not propose to limit all taxes to rent. And yet even in this last matter, if the reader goes through the list of taxes which Smith rejects, he will find that not many things save rent are left to be taxed.



**Malthus.**—At the close of the last century Malthus published his celebrated work, *The Theory of Population*, in which he proposed what has since been known as the Malthusian theory. This was his main contribution to the evolution of economic science.

**Ricardo.**—Ricardo's principal work is the *Principles of Political Economy and Taxation*, published in 1817. In this work Ricardo elaborated, although he did not originate, the usually received doctrine of rent, which, with some modifications and further developments, is the one explained in this book. Rent, he said, is due to the niggardliness and not to the bounty of nature. In other ways, also, his doctrines have a pessimistic tinge, as when he teaches the natural difference of interest between wage-receivers and profit-makers, and the antagonism between the interests of landowners and all other classes of society. Personally he was a kind man, and without doubt sincerely devoted to the advancement of humanity, although he is considered so hard-hearted as an economist. Ricardo is remarkable for his extreme development of the abstract deductive method. It is especially noteworthy that this development is not in the writings of a professional scholar, but in the work of one of the most successful bankers and brokers of his day. Socialists claim that, developing still further, or to their logical outcome, the teachings of Ricardo, they arrive at socialism, and consequently Ricardo ranks high in the esteem of scientific socialists.

**John Stuart Mill.**—John Stuart Mill, who lived from 1806 to 1873, closed one period in the development of economic science and began another in England. He started as a thoroughgoing follower of Ricardo, but added so much to the Ricardian doctrines that his treatise became largely a new one. The old and new do not harmonize, however, and the result is a work which, while one of the most valuable of modern times, is yet full of inconsistencies.

**Roscher, Knies, and Hildebrand.**—In 1850 these three young Germans came forward with a new method, which they called the historical. These writers and their successors

went back of the old premises, self-interest, private property, demand and supply, and analyzed and explained them. They traced the historical development of ideas, and one of them, Knies, challenged absolutism of theory and substituted the doctrine of relativism. Absolutism of theory takes two forms—perpetualism, or the teaching that a certain policy is good for all times, and cosmopolitanism, or the teaching that a policy is good for all countries. Knies held that policies are only relatively good or bad; that policies must vary with time and place. The Germans thus took a new attitude with respect to free trade and protection, holding that neither was absolutely good nor absolutely bad, and that the correct policy of a country cannot be told without an acquaintance with the particular circumstances of the country.

While the doctrine of the Germans is broad and liberal, it is at the same time conservative, for it teaches that improved conditions must be a growth, and must take their root in the past. Socialism springs rather from the abstract English political economy than from the German political economy. As English socialists themselves claim, socialism went from England to Germany and has now returned to England.

But even this is not all that is meant by the tendency designated under the name historical school, and less accurately described as historical method. The expression historical school meant, and still means, many things. Perhaps it primarily signifies a purpose or even a philosophy of life. The ethical aim comes first. Most marked among the characteristics of the school is the supremacy it assigns to ethical considerations. To the demands of ethics, it is felt, the entire economic life should be made subservient. The historical school means a broad, catholic, progressive spirit. It carries with it a different view of the state than that which at the time of its origin prevailed outside the influence of the school. It rejects the attitude of the philosophers of the period of the French Revolution. The state is held to mean simply a co-operative commonwealth. The spread of the influence of the historical school over the world may be termed a wave of

humanitarianism. It has both a negative and a positive meaning. It means rebellion against many of the accepted dogmas of the older philosophy and economics, but it also means a constructive effort toward improvement.

The historical view has sometimes tended to fatalism. The relative justification of what exists has at times become almost an absolute justification, and there has even been a tendency to assume that whatever has been was at the time the best, and that, therefore, no mistakes have ever been made.

**The Austrians.**—Three men take prominent rank as founders of the so-called Austrian school of economists—Professor Karl Menger, Professor Friedrich von Wieser, and Professor Eugen von Böhm-Bawerk. These economists have been referred to so frequently in the course of the book, and their work is so recent and of such a character, that we need not treat of them at great length here.

Professor Karl Menger was the first of the three to attain prominence, but perhaps the best known member of the group to-day is Professor von Böhm-Bawerk. Particularly to English readers he is the most widely known because of the excellent translation by Professor William Smart, of Glasgow, of Böhm-Bawerk's two books, *Capital and Interest* and *The Positive Theory of Capital*. Professor von Wieser's best known work, on *Natural Value*, has also been translated, but Professor Menger's *General Principles of Economics*, though an earlier work, has never been put into English.

First of all, we may characterize the Austrians by the statement that they have closer affinities for the English economists than for the German. They stand for a reaction toward greater emphasis on deduction as a method of economic study. To them the errors of the older English economists seem due not to a wrong method, but to a wrong use of the method. They would, therefore, amend the method by insisting upon a broader and truer basis for their deductions.

The late Professor Jevons, of England, is to be credited with results in the theory of value very similar to those independently achieved at about the same time by Professor

Menger, and since that time much more fully elaborated and applied by him and his associates.

A great part of the work of the Austrians has hitherto been critical and destructive. They have been interested in subjecting the older work to critical analysis, with the hope of substituting sounder views. Thus, Professor von Böhm-Bawerk, in a work called *Karl Marx and the Close of His System*, has attacked the theory of the great German socialist. Nevertheless, as has been shown in the discussion of value and elsewhere in the present book, the constructive work of the school is fundamental.

It would be a serious mistake, however, to conclude that there is an opposition at bottom between the work of the Germans and that of the Austrians. Both have made a real and permanent contribution to the spirit of economic investigation. It is probable that the science will never again stray so far from considerations of actual phenomena, or so far forget conditions of other times and other climes, as it has in times past. This we owe in great measure to the Germans. On the other hand, it is perhaps equally probable that the science will not again so far lose itself in an infinitude of details as to forget the mass—"fail to see the forest for the trees." And this we owe in no small degree to the work of the Austrians. Economic thought in its future developments will absorb what is best in the work and method of both schools, and will be the more careful as well as the richer by reason of their efforts.

**Economics in England.**—Contemporary English economic thought seems to be suffering from the very brilliancy of early English economists. Successors of Adam Smith, Ricardo, Malthus, and Mill, the English economists of to-day, frequently show a timidity of thought quite in contrast with the daring originality of their predecessors. This timidity has resulted in diverting an undue share of their attention into processes of refinement of the older theory. The author would not undervalue caution in economic investigation, nor would he underestimate the really valuable work which even modern

English economists have done, but he cannot forbear mentioning this lack of originality, a lack which is all the more striking because it is precisely this quality of originality which in other fields of thought earns for England her fame.

Probably the most widely known of present-day English economists is Professor Alfred Marshall, of the University of Cambridge. His best work is shown in his *Principles of Economics*, first published in 1890, passing through several editions. The central thought of the work is thus expressed by the author: "The present treatise is an attempt to present a modern version of old doctrines with the aid of the new work, and with reference to the new problems, of our age."

Another famous English economist of the present is Dr. William Cunningham, lecturer in Trinity College, Cambridge. Dr. Cunningham's contributions to economics have been especially in economic history. His *Growth of English Industry and Commerce* is a classic in the field indicated by the title.

Notable among the exceptions to the statement which the author has made regarding timidity in current English economics, is Mr. John A. Hobson, whose keen intellect and bold thought have contributed much to the world in pure economic theory and in the study of practical economic problems. His best works are the *Evolution of Modern Capitalism*; *Economics of Distribution*; and *John Ruskin, Social Reformer*.

No account of the economists of to-day would be complete that omitted mention of Professor F. Y. Edgeworth, of Oxford University, secretary of the British Economic Association, and editor of its organ, the *Economic Journal*. Professor William Smart, whose translation of the works of von Böhm-Bawerk has already received mention, is also author of *Studies in Economics* and *The Distribution of Income*. Dr. John K. Ingram, of Trinity College, Dublin, who is a leader among those who advocate reform in economic methods, is perhaps best known through his excellent work on *The History of Political Economy*, which is without an equal in the English language.



Mr. and Mrs. Sidney Webb are best known through the published results of their study of industrial problems, although both of them are thorough students in the general field of economics. Few more important works have appeared during the last generation than the *Industrial Democracy*, which is the joint work of Mr. and Mrs. Webb.

**Economics in the United States.**—First of all in any sketch of economic study in the United States, it is to be noted that no country has devoted to the study greater time and talent, and no country has accomplished more in that field during the last quarter century, than has our own. American history throughout has been a brilliant economic history, but up to the last twenty-five years no basis had been laid, and no class of thinkers had been prepared, for the study of the science which has such interest for our people. To-day American economists are so well known that it will be unnecessary to devote any lengthened space to a description of their work.

Harvard University is one among the many American institutions that have formed centers for economic influence of surpassing importance. Among the best known of its specialists in the economic field should be mentioned the names of Professor F. W. Taussig, Professor W. B. Ashley, and the late Professor C. F. Dunbar. Harvard University has also contributed much to economic study by establishing *The Quarterly Journal of Economics*.

Yale University counts among its faculty Professor W. G. Sumner and President Arthur T. Hadley, both well known through their writings. The latter, who was in 1899 chosen to the presidency of Yale, has written a work on general economics, and has made important contributions to the growing body of economic literature on railways. Professors Schwab and Fisher, of Yale, are also among the prominent economists of the country. The latter is known especially for his contributions to what might be termed the mathematics or calculus of economics. *The Yale Review*, published by the University, devotes a part of its pages to contributions in economics.

Prominent among the economists in the faculty of Columbia University are Professors J. B. Clark, Richmond Mayo-Smith, and Edwin R. A. Seligman. Of these Professor Clark is best known for his contributions to economic theory, Professor Mayo-Smith for his work in statistics and economics, and Professor Seligman for his work in finance. Professor Franklin H. Giddings, though his chair in Columbia is that of sociology, has devoted much of his time and energy to economic theory and problems, and is ranked among the leading economists of the time. *The Columbia Science Quarterly* is easily among the first of publications devoted to the discussion of economic, political, and social questions.

The University of Pennsylvania numbers among its faculty Professor Simon N. Patten, one of the chief American contributors to the recent advance of economic theory, particularly in the development of a consistent theory of consumption. Professor Roland P. Falkner, recently of the same University, now of the Congressional Library, is well known for his connection with American statistical studies, particularly as the editor of the so-called Senate or Aldrich report of 1893. *The Annals of the American Academy of Political and Social Science*, which is conducted by members of the faculty of the University of Pennsylvania, is another of the growing number of publications which are devoted in great part to economics.

Johns Hopkins University, sometimes called the mother of teachers, has an enviable reputation among those interested in our science. An early leader among American institutions in the attention given to the subject, she still maintains an honored place.

Cornell University is known to economists especially through the presence in its faculty of Professor Jeremiah W. Jenks, expert agent of the Industrial Commission; Professor Charles H. Hull, editor of a recent edition of the works of Petty; and Professor Walter F. Willcox, one of the chief statisticians of the twelfth census.

The limits assigned to this topic are all too narrow to in-

clude an adequate account of the colleges and universities which are forwarding the boundaries of economic science. The reader must be warned against the conclusion that those which are mentioned here are all that participate in the labors or the honors of economic service, or that those not mentioned are to be disregarded or lightly regarded by students of the science.

A word should be said of the universities of the West. Advance has been particularly rapid among them. The name of Leland Stanford University, of the University of California, the University of Chicago, the University of Michigan, will quickly occur to every American student of economics as being well worthy of the high place which is theirs. Professor Henry C. Adams, of the University of Michigan; Professor Laughlin, of the University of Chicago, and Professor Fetter, of Leland Stanford, are among the best known of those who, in the universities of the West, are working in our field.

The author cannot dismiss this opportunity to speak a word of particular praise for the University to which his energies have for nearly a decade been devoted. Called in 1892 to the directorship of the School of Economics, Political Science, and History in the University of Wisconsin, he has seen that institution become an important center for the dissemination of economic teaching throughout the West. The wise liberality which here, as elsewhere, has characterized the state in its conduct of many of the Western universities has reaped a rich reward. Associated with the author in his present position are Professor W. A. Scott, Professor B. H. Meyer, and Professor E. D. Jones, all of whom have gained deserved recognition for their work in the field of political economy.

A word still remains to be said regarding associations formed chiefly or solely for the advancement of economic science. Foremost among these is the American Economic Association, which was formed in 1885. The author's connection with this as one of its founders, and as its secretary for the first seven years of its existence, is to him a constant

source of gratification. The regular publications of the society have done much to stimulate interest in economic research and to spread afar knowledge of the science. Another association which numbers economics among the studies of its chief interest is the American Academy of Political and Social Science. Mention has already been made of the magazine which it publishes.

The subject should not be closed without an acknowledgment of the indebtedness of the science to the interest and efforts of agencies other than colleges and universities. Not all can be so much as mentioned, but a mere reference to the work done by the Chautauqua movement, to the college and social settlements in our great cities, to the labor and statistical bureaus in our federal and state governments, to the recently organized Bureau of Economic Research, which owes its inception in great measure to Professor E. W. Bemis and Professor John R. Commons, and even to the recent prominence of economics in newspaper editorials, will serve to illustrate the manifold agencies now working to develop interest in our science, and to extend the boundaries of its achievement.

With a country presenting the student so rich a field for economic investigation, pressing upon him so many difficult and intricate economic problems, and offering to all unsurpassed opportunities for academic instruction in the field of the social sciences, we can have no doubt that American economists of the future will be in the van of the world's progress in the field to which the present volume has been devoted.





## APPENDIX

1. Suggestions as to Study and Courses of Reading in  
Political Economy
2. Questions and Exercises
3. Bibliography



## 1. Suggestions as to Study and Courses of Reading in Political Economy

**Suggestions.**—Suggestions for the study of political economy, directed as they necessarily are to so many readers in so many different localities and situations, must be very general in their nature.

First of all it may be said that the student should form habits of careful observation and should supplement by inquiry, reading, and reflection whatever he may have gathered from his study of this book. Those who are able ought gradually to get together a working library of economic books. Especially should this be done by those who have not free access to the few large general libraries of the country. To those who are at once able and willing to form such a private library the list of books given herewith will be of assistance. Few will be able to buy all of those mentioned, but those who earnestly desire it and whose interest in the subject is keen and permanent will find that by occasional purchases they can secure within a few years a large share of the books here named. Circles and schools can of course by coöperative effort secure larger working libraries in this as in other subjects than the individual reader ordinarily finds within his means.

But besides and beyond the careful reading and study of the thoughts and investigations of political economists, there is a vast field of work for the individual student and for local circles and schools engaged in the study. Individuals and societies should in every possible manner and at every convenient time study the economic field in the actual working world. Circles and schools should from time to time call in the assistance of business and professional men and practical politicians. Thus, when banking is being studied and discussed, it will not be difficult to have present a banker or banking clerk who will explain

at length and by illustrations bank-notes, checks, drafts, and bills of exchange, and will describe minutely the actual operations of banking. In the same way, when taxation is the topic for study, local tax assessors and tax collectors should be invited to describe the actual working of the system in the administration of which they are practically engaged. The same practice of calling in local practical experts should be followed whenever possible in the discussion and study of all economic topics.

This last suggestion has even wider bearings. Every individual student should be an investigator. Let him examine for himself all the different kinds of money in circulation, and from this examination, supplemented by a reading of the laws, find what are the precise differences among different kinds of money. Let the student make a personal investigation of the operation of water-works, gas works, public roads, and the like. Let him compare for himself the methods and results attending private management of those public service concerns with the methods and results observable when the same service is supplied by the public. So, too, various methods of farming should be practically studied, and here the intelligent and successful farmer should be consulted as to the merits of different systems.

Again, general reading, such as the reading of fiction, of poetry, of history, and, more than all else, reading of the current periodicals, should be made to subserve one's study of political economy. Fiction and history and accounts of travel alike abound in material which to the thoughtful economist is illuminating. The magazines and papers of the day are filled with illustration and practical teaching for him who reads them intelligently. Of course in all such reading there is the need of preserving carefully the critical instinct. Statements found in books or papers, upon which explanations may rest, should be weighed until their truth or falsity has been determined. But this need of care does not prevent such sources of information and illustration from having high value to the discriminating student.

**Courses of Reading.**—In the preparation of the following reading courses certain guiding principles have controlled the selection of books and the order of presentation of the various courses. In the first place, the list of courses is made sufficiently

wide and broad to meet the needs of those who wish to put long-continued and systematic study upon the subject. From the list as thus given others who may wish to study political economy in its general aspects or who may wish to give exhaustive study to some few concrete topics will find it possible to select the courses which will fit their needs. No student who has appropriated the lesson which the author has tried to enforce in the present volume will be satisfied in his study of concrete economic problems without further study of the general principles of the science and of industrial history as outlined in group I. Group III consists of such general works of reference as will be found of value in prosecuting any of the courses indicated under groups I and II. Group IV has been added for the benefit of the smaller class of students who are able and ready to extend their reading to the writings of French and German economists.

Space forbids exhaustive lists of references in any of the courses of study. The reader will understand, therefore, that the omission of any work is not of necessity an indication that the author holds that work in light esteem. It has been his aim to include under each topic the names of books sufficient in number to furnish abundant material for the study of that topic. The student who reads them all or any considerable part of them will not be at a loss to continue his reading further, should he so desire.

**Group I.**—Under group I fall naturally the general and fundamental courses. While the author has followed the order which to him seems most advisable, he should in fairness state that many writers would advise the study of economic history before the study of general political economy.

*Course 1. General Political Economy.*—Adam Smith, *Wealth of Nations*, in Ashley's Economic Classics series; David Ricardo, *Principles of Political Economy and Taxation*; John Stuart Mill, *Principles of Political Economy*; Charles Gide, *Political Economy* (translation); Wilhelm Roscher, *Principles of Political Economy* (translation); Francis A. Walker, *Political Economy* (his larger work); William Smart, *Introduction to the Theory of Value*; Eugen von Böhm-Bawerk, *Positive Theory of Capital* (translation) and *Capital and Interest* (translation); Alfred Marshall, *Principles of Economics*; Richard T. Ely, *Outlines of*



*Economics*; Simon N. Patten, *The Premises of Political Economy* and *The Consumption of Wealth* and *The Theory of Dynamic Economics*; John B. Clark, *The Philosophy of Wealth* and *The Distribution of Wealth*; John A. Hobson, *The Economics of Distribution*. The order in which these works are listed is in a rough way indicative of the order of evolution of modern economic thought.

A careful study of general economic theory will naturally lead the student to investigate the course of development of the various special phases of theory, and the present attitude of economists toward these. Thus independent studies have of late years been made of the theory of value, of rent, of profits, of interest, of prices, etc. It is unnecessary here to do more than point to the fact of this development. The student will find in the works cited references to writings on these special phases, and can thus pursue the subject further if he so desires. Edwin Cannan's *History of Theories of Production and Distribution* is an excellent general guide to such an advanced study.

*Course 2. Economic History.*—William Cunningham, *Growth of English Industry and Commerce During the Early and Middle Ages* and *Outlines of English Industrial History*; J. E. Thorold Rogers, *Six Centuries of Work and Wages* and *A History of Agriculture and Prices in England* and *The Economic Interpretation of History*; H. de B. Gibbins, *The Industrial History of England*; W. J. Ashley, *Introduction to English Economic History and Theory*; Townsend Warner, *Landmarks in English History*; B. Rand, *Selections Illustrating Economic History since 1763*; J. K. Ingram, *History of Slavery*; Arnold Toynbee, *The Industrial Revolution*; John A. Hobson, *The Evolution of Modern Capitalization*; Carroll D. Wright, *Industrial Evolution of the United States*. Of course, the greater number of students for whom these courses have been prepared will not find it possible to secure or study this entire list. The titles will suffice to enable the reader to make selections, and in the ground covered by the works the reader cannot go astray in choosing any of them.

*Course 3. The History of Political Economy.*—The books that follow should be accompanied and supplemented by the volumes from which information regarding the history of political economy has been drawn. Thus with one of the following books as a

guide the reader should go to Plato and Aristotle for information regarding political economy among the Greeks. Some of these sources have been edited by W. J. Ashley in a series called *Economic Classics*.

J. K. Ingram, *History of Political Economy*; Luigi Cossa, *Introduction to the Study of Political Economy* (translation); J. A. Blanqui, *History of Political Economy in Europe* (translation); L. L. Price, *A Short History of Political Economy in England*; also articles in *Encyclopedia Britannica* on the authors to whom reference is made in the above histories, and the *Economic Classics*, which W. J. Ashley has edited, including (1) Adam Smith, select passages; (2) Ricardo, six chapters; (3) Malthus, *Selections from Theory of Population*; (4) Mun, *England's Treasure by Foreign Trade*; (5) Jones, *Peasant Rents*; (6) Schmoller, *The Mercantile System*.

**Group II.**—Group II includes courses of study regarding most of the stirring economic problems of our time. It is particularly in these courses that personal investigation should at every step check and either confirm or disprove conclusions reached by the authors cited.

*Course 4. Money.*—W. Stanley Jevons, *Money and the Mechanism of Exchange*; Francis A. Walker, *Money and Money, Trade, and Industry*; Horace White, *Money and Banking*; J. Shield Nicholson, *Money and Monetary Problems*; Charles J. Bullock, *Essays on the Monetary History of the United States*; J. Laurence Laughlin, *History of Bimetallism in the United States*; M. L. Muhleman, *Monetary Systems of the World*; *Report of the Monetary Commission of the Indianapolis Convention*, edited by J. L. Laughlin.

*Course 5. Banking.*—J. J. Knox, *History of Banking in the United States*; J. S. Gilbart, *History, Principles, and Practice of Banking*; C. F. Dunbar, *Theory and History of Banking*; Horace White, *Money and Banking*; C. A. Conant, *History of Modern Banks of Issue*; *Report of the Monetary Commission of the Indianapolis Convention*; A. S. Bolles, *Practical Banking*; Walter Bagehot, *Lombard Street*.

*Course 6. Tariff.*—C. F. Bastable, *Theory of International Trade*; G. J. Goschen, *The Theory of Foreign Exchange*; G. Clare, *The A B C of the Foreign Exchanges*; F. W. Taussig, *The Tariff*

*History of the United States*; W. G. Sumner, *History of Protectionism in the United States*; Frederick List, *National System of Political Economy*; Simon N. Patten, *The Economic Basis of Protection*; R. E. Thompson, *Social Science and National Economy*; F. Bastiat, *Sophisms of Protection* (translation).

Course 7. *Finance*.—H. C. Adams, *Public Debts and The Science of Finance*; C. F. Bastable, *Public Finance*; G. Cohn, *The Science of Finance* (translation); Luigi Cossa, *Taxation, Its Principles and Methods*; W. M. Daniels, *Elements of Public Finance*; Carl C. Plehn, *Introduction to Public Finance*; E. A. Ross, *Sinking Funds* (in the publications of the American Economic Association); Victor Rosewater, *Special Assessments* (in the Columbia University Studies in History, Economics, and Public Law); E. R. A. Seligman, *Essays in Taxation and Progressive Taxation and The Shifting and Incidence of Taxation*; F. Walker, *Double Taxation in the United States* (in the Columbia University Studies in History, Economics, and Public Law); M. West, *The Inheritance Tax* (in the Columbia University Studies, as above); F. C. Howe, *Taxation in the United States Under the Internal Revenue System*; W. A. Scott, *The Repudiation of State Debts*; F. W. Taussig, *The Tariff History of the United States*; Thomas K. Urdahl, *The Fee System in the United States* (in the Transactions of the Wisconsin Academy of Sciences, Arts, and Letters); R. T. Ely, *Taxation in American States and Cities*; David Kinley, *The Independent Treasury*.

Course 8. *Labor, its Position, its Conditions, and its Earnings*.—L. Brentano, *The Relation of Labor to the Law of To-day*; R. T. Ely, *The Labor Movement in America*; N. P. Gilman, *Profit Sharing*; John A. Hobson, *The Evolution of Modern Capitalism*; W. S. Jevons, *The State in its Relation to Labor*; B. Jones, *Co-operative Production*; J. S. Lowell, *Industrial Arbitration and Conciliation*; H. D. Lloyd, *Labor Copartnership*; B. Potter, *The Cooperative Movement in Great Britain*; D. Schloss, *Methods of Industrial Remuneration*; F. J. Stimson, *Handbook of the Labor Law of the United States*; C. D. Wright, *Industrial Evolution of the United States*; Sidney and Beatrice (Potter) Webb, *Industrial Democracy*.

Course 9. *Socialism*.—Edward Bellamy, *Looking Backward*; Theodor Hertzka, *Freeland, A Social Anticipation*; John Morley,

*Ideal Commonwealths* (a description of the socialistic communities imagined by Plato, More, and others); W. H. Dawson, *German Socialism and Ferdinand Lassalle*; R. T. Ely, *French and German Socialism and Socialism and Social Reform*, together with supplementary articles in *The Chautauquan* for 1899; W. Graham, *Socialism New and Old*; L. Gronlund, *The Cooperative Commonwealth*; T. Kirkup, *History of Socialism and Inquiry into Socialism*; E. de Laveleye, *Socialism of To-day*; Karl Marx, *Capital* (translation), often called the Bible of socialism; J. Rae, *Contemporary Socialism*; A. Schäffle, *The Quintessence of Socialism*; T. D. Woolsey, *Communism and Socialism*.

**Course 10. Rent, Land Nationalization, and the Single Tax.**—J. B. Clark, *Capital and its Earnings*; John R. Commons, *The Distribution of Wealth*; Henry George, *Progress and Poverty*; John A. Hobson, *The Economics of Distribution*; Simon N. Patten, *Dynamic Economics*; C. B. Spahr, *The Present Distribution of Wealth in the United States*; F. A. Walker, *Land and its Earnings*.

**Course 11. Monopoly and Large Corporations.**—Henry C. Adams, *The Relation of the State to Industrial Action*; C. E. Baker, *Trusts and the People*; John B. Clark, *Theory of Economic Progress* (publications of the American Economic Association); S. C. T. Dodd, *Combinations, Their Uses and Abuses*; W. W. Cook, *The Corporation Problem*; R. T. Ely, *Monopolies and Trusts*; T. H. Farrer, *The State in Its Relation to Trade*; G. Gunton, *Trusts and the Public*; Henry Lloyd, *Wealth against Commonwealth*; E. Von Halle, *Trusts and Industrial Combinations*; E. W. Bemis, *Industrial Monopolies*. In this field of investigation the reader should also consult the various state and federal investigations of the problem. The latest is that made by the federal government in 1899-1900.

**Group III. General Works of Reference.**—In addition to the books mentioned in the preceding paragraphs, the reader will find certain general works of reference of almost inestimable value. These may be most conveniently listed under the three heads dictionaries, periodicals, and general treatises.

**Dictionaries.**—Under this head three works have distinct pre-eminence. They are W. D. P. Bliss's *Cyclopedia of Social Reform*; J. J. Lalor's *Cyclopedia of Political Science and Political Econ-*

omy; and the *Dictionary of Political Economy*, edited by R. H. Inglis Palgrave.

*Periodicals.*—Publications falling under this head are very numerous. The following should be found in a good working library: *Publications of the American Economic Association*, complete; *Political Science Quarterly*, complete; *Quarterly Journal of Economics*, complete; *Annals of the American Academy of Political and Social Science*, complete; *Municipal Affairs*, complete; *The Commercial and Financial Chronicle*, current; *Bradstreet's*, current; *Banker's Magazine and Statistical Register*, current. Of course, in addition to these there will be wanted other trade papers covering the special lines of work on which attention is being centered. To-day nearly every trade, industry, and interest has its own official and unofficial representatives, and these may always be consulted with profit. These again should be supplemented by government publications, wherever possible.

*General Treatises in English.* There is a great and growing number of treatises which are devoted to the general subject of economics. It will be a distinct advantage to have access to as many as possible of these. The following list, which is supplementary to that already given under group I, is by no means exhaustive: E. B. Andrews, *Institutes of Economics*; F. Bowen, *American Political Economy*; E. Cannan, *Elementary Political Economy*; H. J. Davenport, *Outlines of Economic Theory*; E. J. Devine, *Economics*; R. T. Ely, *Outlines of Economics*; C. Gide, *Principles of Political Economy* (translation); A. T. Hadley, *Economics*; W. E. Hearn, *Plutology*; S. M. Macvane, *Working Principles of Political Economy*; A. Marshall, *Principles of Economics*; J. S. Nicholson, *Principles of Political Economy*; A. L. Perry, *Principles of Political Economy*; W. Roscher, *Political Economy* (translation); H. Sidgwick, *Principles of Political Economy*; F. A. Walker, *Political Economy*.

**Group IV.** *Works of Reference in French and German.*—It remains to suggest for the reader some works in French and German which many will find it an advantage to consult. In German those of special value are Schönberg's *Handbuch der Politischen Oekonomie*, the economic works of Wagner, Roscher, Cohn, Knies, Wieser, Menger, and Schmoller, and, among magazines, the *Jahrbücher für Nationalökonomie und Statistik*, and



the *Jahrbuch für Gesetzgebung, Verwaltung, und Volkswirtschaft*. A few French references of probable value are: Gide, *Principes d'économie politique*; Baudrillart, *Histoire du luxe*; Leroy-Beaulieu, *Traité de la science des finances*; Emile de Laveleye's economic writings; and, among magazines, the *Revue d'économie politique*, which represents the younger and more progressive element, led by Professor Charles Gide, and the *Journal des économistes*, which is the organ of the ultra-conservative school of French economists.

## 2. Questions and Exercises

THE following questions and exercises, with the exception of the definitions called for in the first paragraph, are grouped in the order of the chapters in which the respective subjects are discussed:

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Define or explain the following terms: Sociology; economic life; political economy; the state; freedom of contract; utilities; marginal utility; economic goods; wealth; wants; luxuries; capital; exchange; value; price; demand and supply; cost of production; money; bimetallism; credit; property; interest; capitalization; rent; standard of comfort; margin of cultivation; socialism; anarchism.

### PART I. CHAPTER I

What are the departments of social life, and what is the relation of the economic to the other departments?

What different views obtain as to the province of sociology?

### CHAPTER III

What are the physical characteristics of your own locality? How have they influenced its economic life? In what ways do you think they will affect its future economic life? In what ways has the character of the people in your community been shaped by their economic life?

### CHAPTER IV

Is there any justification for the term "wage-slavery?" Explain.

### CHAPTER V

What are the different economic stages in the life of a people, viewed from the standpoint (a) of production; (b) of transfers of goods? Describe and give illustrations of each.

Describe the village community.

## CHAPTER VI

Explain the essential difference between the economic system of the Middle Ages and that of the present time.

Describe four of the main features of modern economic life which give rise to the present economic problems.

Explain what is meant by absolute and relative deterioration in the economic condition of the masses.

What are the principal means proposed for uniting labor and capital?

## CHAPTER VII

In what important respect has the nature of restrictive laws been changed? What are the advantages and disadvantages of freedom in industry?

What government activities can you name which were formerly, in this or other countries, ancient or modern, delegated to individuals or private companies, and what have been the reasons which led to the adoption of the present system?

State and criticise the contract theory of government.

What are the principal reasons why government should own and manage forests?

## CHAPTER VIII

Show the difference between private and public interests.

Why must we have an ethical ideal in our studies in political economy?

Describe the three classes of definitions of political economy; show their logical and historical development, and give examples of each.

## CHAPTER IX

What are the different methods of economic research? Describe each. Which are most important? What is the origin and character of the historical school?

## CHAPTER X

Are there natural laws in political economy? What is the nature of an economic law? of a social law?

## CHAPTER XI

What claim has political economy to the name of science?

To what other sciences is political economy closely related, and in what way?

120 Give illustrations of the influence of the religious life upon the economic life of a people. Show some economic causes and results in religious reformations; for example, those of Luther, Wyclif and the Lollards, of Mohammed, and others.

What are the principal economic teachings of Moses? of Isaiah? of Jesus? Show the growth of economic civilization among the Jews as exemplified by their teachings.

## PART II. CHAPTER I

129 What is the relation between production and consumption as divisions of political economy?

## CHAPTER II

129 What are the three classes of motives of economic activity, and how do they supplement one another? Among what peoples, if any, is self-interest the only economic motive?

What are the effects of luxurious expenditures upon the rich? upon the working class?

## CHAPTER III

144 What are the different factors in production? Give examples of industries where the different factors are represented by different persons.

Which of the four factors in production is most benefited by the extension of machinery and division of labor?

125 What is meant by land? What services does it render to production? What is the difference between rent and profits? between rent and interest?

What are the checks on population among savages? among civilized people?

144 132 How does capital arise? What defense has the capitalist for receiving interest? Is credit capital? Is money capital? Distinguish between economic goods and capital.

Are the following things capital, and if so, are they social or individual capital? City lots, farms, good eyesight, a dwelling house, an actor's diamonds, a theater, bread and butter, railroad stock, promissory notes, Fortress Monroe, the White House, Lake Erie, a custom house, church taxes, lottery tickets, United States greenbacks, the "good will" of a business.

## CHAPTER IV

Describe the functions of the *entrepreneur*. Show his relations to the principle of division of labor.

What are the advantages of division of labor? disadvantages? Why cannot the division of labor be carried out so well in agriculture as in manufactures?

Show how increased division of labor has made female and child labor important problems.

## PART III. CHAPTER I

What is the relation between utility and value?

Explain how a monopoly fixes its price. What social conditions determine the point of maximum monopoly revenue?

What is meant by the expression "fair price?"

## CHAPTER II

Name and describe the three conceptions of money.

What functions are performed by money?

What were the ideas of the mercantilists with regard to money?

What are the qualities of gold and silver which make them preëminently fit for money?

State all the effects which follow in a country from an increase or decrease in the quantity of money.

Is the unqualified statement, "Bad money drives out the good," true to the facts? If not, state it better.

Outline what would seem to you a safe and satisfactory system of currency.

## CHAPTER III

Name and describe the different instruments of credit.

What are the advantages of credit? the disadvantages?

## CHAPTER IV

What are the different motives which have led nations to regulate international commerce?

What are the reasons for the apparent credibility of the balance of trade theory? Why do bankers look with more distrust upon



shipments of gold to Europe than upon larger shipments to distant parts of our own country?

Examine and criticise the following: "The ordinary means to increase our wealth and treasure [gold and silver] is by foreign trade; wherein we must observe this rule: to sell more to strangers yearly than we consume of theirs in value. For suppose that when this kingdom is plentifully served with the cloth, lead, tin, iron, fish, and other native commodities, we do yearly export the surplus to foreign countries in the value of twenty-two hundred thousand pounds, by which means we are enabled beyond the seas to buy and bring in foreign wares for our use and consumption to the value of twenty hundred thousand pounds. By this order duly kept in our trading we may rest assured that the kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in so much treasure [gold and silver], because that part of our stock which is not returned to us in wares must necessarily be brought home in treasure."—*Thomas Mun*, 1640.

State the advantages to a country of foreign commerce.

#### PART IV. CHAPTER I

Define property. What is the meaning of the expression, "jus utendi vel abutendi re?" What limitation is there always to the right of property? What two elements enter into property?

#### CHAPTER II

Explain the following: "High or low wages or profit are the causes of high or low prices; high or low rent is the effect of it. It is because high or low wages or profit must be paid in order to bring a particular commodity to market that its price is high or low. But it is because its price is high or low, a great deal more, or very little more, or no more, than what is sufficient to pay these wages and profit, that it affords a high rent or low rent, or no rent at all."—*Adam Smith*.

"General low wages do not cause low prices, nor high wages high prices." Explain.

What does Ricardo mean by saying that the niggardliness of nature is the cause of rent? Is this statement perfectly accurate?

Define rent. What is the difference between rent and interest?

Would the land of a country pay rent if it were all of uniform fertility? *no*

What has been the effect of railroad-building upon rents in the United States? *reduction in old lands*

Does increase in rent cause increase in the price of food? *no*

"No reduction would take place in the price of corn although landlords forego the whole of their rent." Explain.

"Rent does not enter at all into the cost of production." Explain.

### CHAPTER III *p 214*

What elements enter into interest? What determines the rate of interest?

*220* On what does the rate of interest depend? Why is interest higher in Chicago than in New York?

"That interest does not depend upon the productiveness of labor and capital is proved by the general fact that where labor and capital are most productive interest is lowest. That it does not depend reversely upon wages (or the cost of labor), lowering as wages rise and increasing as wages fall, is proved by the general fact that interest is high when and where wages are high, and low when and where wages are low." Is this true? *no!*

Does a fall in the rate of interest mean that the total interest paid has decreased either absolutely or relatively to the total amount produced?

"Interest and wages depend on the margin of cultivation, falling as it falls and rising as it rises." Explain this. *Key 11*

### CHAPTER IV

*221* "The increase of stock [capital], which raises wages, tends to lower profit."—Adam Smith. Is this correct?

Explain the difference between capital and capitalization.

What influence upon the selling price of bonds and land has a fall in the rate of interest? a rise in the rate of interest?

Does the tendency of profits to a minimum depend on a general fall in prices? If so, why? If not, why not?

Ricardo's law of industrial progress is as follows: "In an advancing community rent must rise, profits fall, and wages remain about the same." Explain this.

## CHAPTER V

4227 *Income & Wages*  
 "High wages or profits do not make general high prices. They affect prices only inasmuch as different articles have, as elements of their cost, wages and profits in different proportions." Explain.

Distinguish between rate of wages and price of labor.

Define the "standard of life." Of what importance is it as an economic principle? In what ways does a high or low price of food affect the general rate of wages?

To what kind of work is piecework adapted? What are the advantages and disadvantages of piecework?

Wages of women are not commonly equal to those of men for the same work performed. Why is this so? Is it "fair?"

Why should the economist discuss public education?

## CHAPTER VI

226  
 What are the differences in organization between trades-unions and Knights of Labor, and how have they influenced each other?

## CHAPTER VII

2413  
 What are the different kinds of coöperation? What are the advantages of productive coöperation?

## CHAPTER VIII

2441  
 What are the four characteristic features of socialism? How does socialism differ from anarchism?

What is meant by profit-sharing? capital-sharing? coöperation? socialism?

## CHAPTER IX

2457  
 What are the characteristics of natural monopolies?

2457  
 It is sometimes said that state management of natural monopolies is socialistic. Examine and criticise this statement.

Examine and criticise the following: "There is no more reason why the government should operate the telegraph than run the flour mills—less, in fact, for everybody uses flour, while it is doubtful if even three per cent of the people use the telegraph."

What conditions justify the state in engaging in industrial enterprises?

267 What four advantages are claimed to result from public ownership and management of natural monopolies?

268 In what way may public ownership of certain industries promote competition?

#### PART V

269 In what ways will the following different kinds of expenditure of income affect the wealth of the United States, and the working classes: purchase of United States bonds; employment of American servants; traveling abroad; purchase of American pictures; production of manufactured goods?

Criticise the following statement: "Blessed is the country where the rich are extravagant and the poor economical."

How does the consumption of luxuries retard the industrial progress of a community?

#### PART VI. CHAPTER I

What is public finance?

#### CHAPTER II

How can methods of taxation be improved?

What is the justification of taxation?

Show how society takes part in production in your community.

### 3. Bibliography

The following bibliography contains the works to which reference has been made in this volume, together with certain others which it is believed may prove helpful to the general reader. The German and French works, except the translations, are listed separately.

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